

**RURAL CREDIT FOR SMALL  
FARMING SECTOR:  
ACHIEVEMENTS, FAILURES AND  
FUTURE PROSPECTS**

**With Special Attention to Micro-credit Systems**

**J.K.M.D. Chandrasiri**

**Research Study No. 114**

**September 2005**

**Hector Kobbekaduwa Agrarian Research & Training Institute  
114, Wijerama Mawatha  
Colombo 07  
Sri Lanka**

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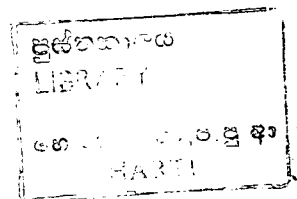
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## Foreword

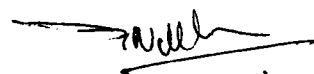
Credit is a necessary input for smallholder farming. The various governments that came into power since political independence in Sri Lanka have taken different actions to fulfill the credit requirements especially of the smallholder paddy farmers; but those efforts have not been totally successful. Hence, the governments that came into power in the recent past have paid special attention to promote micro-credit institutions as a strategy to satisfy the credit needs of smallholder paddy farmers. This has led to the emergence of different types of micro-credit institutions initiated by the government, NGOs and CBOs.

The major focus of this study has been the micro-credit systems / institutions operating in rural areas. The study has examined the types of micro-credit institutions and their capacity in facing the credit requirements and the issues arising when satisfying credit requirements of the smallholder farmers. In pursue of that line, the study has broadly reviewed the past agricultural credit programmes, their success level and the causes for their failures. The study has examined how the micro-credit institutions have successfully faced some of these credit issues.

The study gives information about the available sources of credit in the study areas, their recent changes, the factors that have contributed for such changes, and their effect on smallholder farmers. In addition, the study presents detailed information about the micro-credit institutions in the study locations, including their membership, available funds and rules and regulations associated with their different credit schemes. It provides information about the importance of micro-credit, compared to other sources of credit in terms of providing credit services for paddy farmers both for investment as well as for consumption purposes.

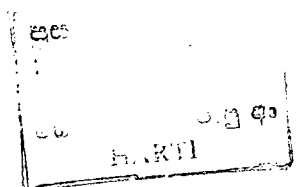
This study gives a picture about the credit component of the *Yaya* Production Programme too. Information is provided on the operational performances of that programme in two different stages, namely before and after the linking of that program with the credit scheme of the Farmer Banks.

Mr. J.K.M.D. Chandrasiri, Research Fellow and the head of the Agricultural Policy and Project Evaluation Division of HARTI has conducted the study. I would like to take this opportunity to thank him for his valued dedication.



V. K. Nanayakkara  
Director

27<sup>th</sup> September 2005.



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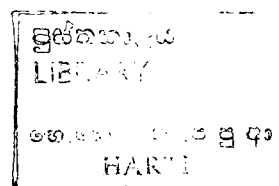
I wish to express my sincere gratitude to all those who extended their assistance in making this study a success. A special word of thanks is extended to those mentioned below, without whose valuable contribution, this report would not have been possible.

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J.K.M.D. Chandrasiri  
Research Fellow and the Head  
Agricultural Policy and Project Evaluation Division, HARTI

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## Abbreviations and Acronyms

AI	Agricultural Instructor
ASC	Agrarian Services Centre
CBO	Community Based Organization
CRB	Cooperative Rural Bank
CRCS	Comprehensive Rural Credit Scheme
DAS	Department of Agrarian Services
DCBU	District Cooperative Rural Banking Unions
DO	Divisional Officer
DSD	Divisional Secretariat Division
FBCS	Farmer Bank Credit Scheme
GB/GBACS	Govi Jana Bank Agricultural Credit Scheme
HARTI	Hector Kobbekaduwa Agrarian Research and Training Institute
JBS	<i>Janashakthi</i> Banking Societies
MF	Micro-Finance
MPCS	Multipurpose Co-operative Societies
NACS	New Agricultural Credit Scheme
NCRCS	New Comprehensive Rural Credit Scheme
NGO	Community Based Organization
NCRCS	New Comprehensive Rural Credit Scheme
NGO	Non-Governmental Organization
MCI	Micro-Credit Institution
MCS	Micro-credit system
PTCCS	Primary Thrift and Credit Cooperative Societies
RDB	Regional Development Bank
RRDB	Regional Rural Development Bank
SBS	<i>Samurdhi</i> Bank Societies
SEEDS	<i>Sarvodaya</i> Economic Enterprises Development Services
TCCM/SANASA	Thrift and Credit Co-operative Movemnt/ <i>Sakasuruwankama Saha Naya Ganudenu Pilibanda Samupakara Samithiya.</i>

## Executive Summary

This study concentrates mainly on the success of micro-credit systems in combating credit issues of smallholder farmers. The objectives of this were to examine the achievement levels and reasons for the failure of past credit programmes and the capacity of the MCIs in fulfilling credit needs of the smallholder farmers. Investigating the operational success of the "Yaya Demonstration Programme" was an additional objective.

The study mainly focuses on the credit situation of paddy farming, and *Anuradhapura* district was selected for this. Three study methods were applied, namely a literature review, a sample survey of the paddy farmers and a survey of the MCIs. The field surveys were conducted in four locations, two from the *Rajangana* Irrigated Settlement Scheme and two under Village Tank Schemes in *Kekirawa*.

As revealed by the literature review, the agricultural credit programme initiated by the government has failed without making a substantial contribution to the farming community. Different factors such as demand as well as supply have attributed to its failure. The factors attributed to the demand side were that the poor farmers have no easy access to formal credit institutions because of their inability to satisfy the required collaterals and adopt bureaucratic procedures, the long time and high costs involved in obtaining credit. The supply side claimed that it has to charge a higher interest and follow strict rules and long procedures due to the high cost it has to bear in giving credit to smallholder farmers and other factors such as high defaults.

The sample survey generated very impressive information about the present situation of the smallholder farming sector credit in addition to the information it provided about MCIs. Accordingly, the recent low profitable nature of paddy cultivation has encouraged almost all the farmers to find capital from borrowings. Among these, borrowings, pawning jewellery items, mortgaging lands and obtaining credit (in cash, kind and service form) have been prominent. Mortgaging jewellery especially to the financial institutions, which have expanded under liberal economic policies, has emerged as one of the popular methods of obtaining cash by the poor farmers. Under the said method of mortgaging land, the owner of it cultivates it while paying a rent, which changes according to the location and moneylender. This system seems to place the farmer in a more vulnerable position.

The picture regarding agricultural credit seems to be even more complicated. In the farmer's terminology, "credit" is borrowings done only in "cash" but not borrowings done in "kind" and "services" which are more prominent among paddy farmers. So the borrowings done in cash, kind and services have to be considered as three credit types.

Regarding various sources of credit still prevailing among paddy farmers, informal sources seem to be more prominent while semi-formal sources (MCIs) and formal sources come next in importance. The emergence of more lorry owners and tractor owners within an open economic environment, who perform functions such as paddy collecting and ploughing on a credit basis, have contributed to the prominence of

informal sources. The terms and conditions of their credit are changing from interest free loans in more competitive areas to high interest loans in more isolated locations thus making the condition difficult for interior farmers.

With the increasing role of paddy collectors and tractor owners as credit suppliers, the role played by traditional money lenders, friends and relatives as credit suppliers in the rural credit market is gradually diminishing. The emergence of more MCIs in rural areas to supply agricultural credit has been another change. Even Death Donation and Welfare Societies have come forward to provide agricultural credit.

The study revealed that the MCIs have a capacity to successfully overcome some of the credit issues of the smallholder farmers. The collateral problem has been solved through the creation of individual assets and some other methods. Their flexible rules and short procedures, decision making and voluntary nature of the management have provided the opportunity to cut down the high credit cost as well as the long time taken to obtain credit. Various types of innovative methods have been applied to increase recovery rates, which are very high. The MCIs have been able to improve farmers' accessibility to them and satisfy their credit requirements to a certain level for the satisfaction of the farmers, although some have not been able to compete with some of the services provided by informal sources of credit providers, such as paddy collection and tractor owners who provide specific services.

Among the issues faced by the MCIs in expanding their services, the insufficiency of funds, poor organizational structures at the grassroot level, stagnation of agriculture, and low income of the farmers appear to have been prominent.

The study paid attention to the credit component of the *Yaya* Demonstration programme as well, and found that under its initial phase, the farmers have been able to apply fertilizer at the correct time on the instructions of the AIs. Under its second stage, the linking of the credit component of the programme with the Govi Jana Bank Agricultural Credit Scheme seems to have been theoretically correct. But, it has created some issues as well.

The study concludes that the MCIs fill the vacuum of the non-existence of a suitable institutional mechanism in the rural sector to satisfy credit needs of the smallholder farmers although they are not operating everywhere in the country. However, the nature of their operation proves that they can be encouraged to develop their capacity to fulfill all credit requirements of the farmers.

Therefore, it is recommended that the government should pay more attention to promote the MCIs as an appropriate mechanism to satisfy credit needs of the poor farmers. In this process, it can effectively participate through policy interventions, provision of necessary infrastructures, training and communication. More NGO's attention is also required to promote this sector.



facilities. The provision of agricultural credit facilities through various institutions dates back to the beginning of 20<sup>th</sup> century (1911). Since then over the years, a number of credit programmes had been introduced under different policies, approaches and strategies. Implementation, performance and impact of those programmes have been unsatisfactory due to many reasons. Therefore, since 1980s, the promotion of micro saving and credit systems were given more attention as a strategy to solve the smallholder farmer's credit problem. Government institutions, Non-Governmental Organizations (NGOs) as well as Community Based Organizations (CBOs) have attempted to promote and establish various types of micro-credit systems which are based on people's participation. Currently, a number of such credit systems are operating everywhere in the country. But, there is a lack of information about the extent of their capacity to solve the issues faced by the above mentioned state sponsored institutional credit systems. This study attempts to address this issue. In addition, the study examines the progress of the credit component of a recently introduced programme called "Yaya Demonstration Programme" in order to identify whether any remedial action is needed to make it a success.

### **1.3 The Objectives of the Study**

The study has three main objectives

1. The first is to examine the achievement levels and reasons for failure of government sponsored institutional credit systems in terms of fulfilling credit requirements of smallholder farmers.
2. The second is to assess the capacity of micro-credit systems in fulfilling credit needs of smallholder farmers by overcoming the problems encountered under the institutional credit systems.
3. The third is to investigate the operational success of "Yaya Demonstration Programme" and identify any loopholes faced by it.

#### **1.3.1 Specific Objectives**

After a review of the literature on government sponsored institutional credit programmes, the following specific objectives were developed:

1. To examine the extent to which micro-credit systems have been able to improve the access of smallholder farmers to fulfill their credit needs from them.
2. To identify the problems that micro-credit systems face in expanding their activities.
3. To suggest suitable policy recommendations based on the findings of the study to solve the smallholder farmers credit problem.

## 1.4 Methodology of the Study

This study was conducted through two main study methods. One was a literature survey and the other was a field survey. Past literature on smallholder farming sector credit was reviewed to identify achievement levels of government sponsored institutional credit systems and reasons for their failure. The second and third major objectives of this study, which focussed on the capacity of micro-credit systems in fulfilling credit needs of smallholder farmers and performance of the credit component of the "Yaya Demonstration Programme", were examined by conducting a field survey.

In the field survey, the credit situation of the paddy farmers in selected areas and situation of the micro-credit systems from which the said farmers have benefited were studied. Still paddy farming is the main economic activity in the rural sector. Therefore, supplying credit requirements of paddy farmers is a major issue. Hence, this study paid attention to the situation of credit related to agricultural and non-agricultural activities of the paddy farmers and the micro-credit systems associated with their activities.

## 1.5 Data Collection Methods

### I. Literature review:

Under the literature review, a number of publications, articles and research reports on smallholder farming sector credit systems were read. Those belonged to government as well as private institutions, research centers and individual scholars.

### II. Field Survey

The major data collection method of the field survey was the application of a questionnaire to the selected farmers in the study areas. This questionnaire was used to obtain information related to credit information of individual farm families and some information about micro-credit systems from which those families have obtained credit. It was attempted to obtain information related to attitudes of the farmers on micro-credit systems operating in their areas too.

Another major data collection method of this study was procurement of information from micro-credit institutions, in the study areas, such as Farmer Bank, SANASA, SEEDS (*Sarvodaya* Economic Enterprises Development Services), and Death Donation Society etc.

Interviewing the officers of credit as well as other service supply institutions, leaders of the farmer organizations and villagers in the study areas were also used as another method of obtaining information

## 1.6 The Study Area

The selection of the areas for the field survey was based on a number of reasons. Initially, *Anuradhapura* district was selected because it is one of the major paddy growing districts in the country.

Secondly, *Rajangana* and *Kekirawa* Divisional Secretariat Divisions were selected as the most important areas contributing to paddy production in the district.

The amount and occasion of the financial requirements of the farmers are determined by a number of factors such as type of crops grown, cropping pattern, nature of technology applied etc. which basically differed under major as well as minor irrigation systems. So attention was given to select a sample from farmers in both major as well as minor irrigation systems because different types of credit systems have come into existence under these two systems depending on the factors explained earlier. *Rajangana* scheme was selected from *Rajangana* Divisional Secretariat Division as the major scheme. *Medawewa-Aliyawetunawewa* and *Keeriyagaswewa*, the two *Gramasevaka* Divisions were selected from *Kekirawa* Divisional Secretariat Division as the minor scheme areas.

From *Rajangana* scheme two locations were selected for the study because of the diversity of the sources of credit and credit systems between head-end and tail end of the scheme. Those are track 4 and track 12 (the distance between these two tracks is over 13 km.).

## 1.7 The Sample Size and Selection

From each study location a maximum of 40 farmers were selected randomly. But, from *Kaluebbe* only 30 farmers were selected because the total number of farmers in there was smaller compared to the other locations. In selecting the sample, a list prepared by the farmer organization in the study location, including the names of all the farmers who grew paddy in last *maha* and /or *yala* was utilized. Accordingly, the number of farmers selected from each location is as follow.

### Details about the Study Sample:

<u>Type of Scheme</u>	<u>Name</u>	<u>No. of Farmers Selected</u>
Major Schemes	<i>Rajangana</i>	
	Track 4	40
	Track 12	40
Minor Schemes	<i>Medawewa-Aliya</i>	40
	<i>Wetuna Wewa</i>	30
	<i>Keeriyagaswewa</i>	
<b>Total</b>		<b><u>150</u></b>

## **1.8 Time Period**

This study was conducted during the period of January 2001-March 2002. Specifically the field survey was conducted during the first two weeks of November 2001. In collecting credit information from the farmers, a one-year period covering the two previous agricultural seasons namely, *maha* 2000/2001 and *yala* 2001, was given attention.

## *Chapter Two*

### **REVIEW OF LITERATURE ABOUT PAST CREDIT POLICIES AND PROGRAMMES**

#### **2. Introduction**

This chapter is mainly about the experience of past credit policies and programmes. Initially this chapter examines how the governments reacted to the financial problem of the small holder farming sector in Sri Lanka since the beginning of the 20<sup>th</sup> century, the change of government credit policy with time, the evolving process of different credit programmes, their characteristics, success/failures. Also an attempt is made to define what "micro-finance"/"micro-credit", "micro-financing Institutions" are and what are the specific benefits of their involvement to solve the issues faced by formal institutional credit systems involved in providing credit for the small holding sector. This chapter also provides detailed information about the nature, characteristics, progress and potential of popular micro-credit systems currently operating in the country. This information enables the reader to gain a wider outlook about a number of micro-financial institutions, which are operating in the study areas as well.

#### **2.1 The Period before Independence**

From the very beginning of the twentieth century there was a growing concern for the provision of institutional credit to smallholder farmers in Sri Lanka (Fernando: 1979:1). For example, the then British Governor of the island appointed a committee in 1906 to study the problem of rural indebtedness. Based on the recommendations of this committee and another committee appointed in 1909 to examine a suitable banking system for the country, a foundation was laid for the establishment of a cooperative movement with the enactment of the Co-operative Credit Societies Ordinance in 1911. Under this, Co-operative Societies were established in various parts of the country. By the year 1926, there were 315 Co-operative Societies and 290 of those were Co-operative Credit Societies. The total number of membership of those was 34,164. The government policy on agricultural credit until 1947 was granting of loans to cooperative societies. By the year 1926 these societies had granted 0.4 million and recovered Rs. 0.3 million (Fernando 1979:77). But, the granting of credit by the cooperative societies was unsatisfactory due to two main reasons: (i) The number of societies in existence was insufficient to cater to all farmers; (ii) Even where they existed, they could not cater all the needs of the farmers (*Thilakaratne*: 1963:223).

#### **2.2 The Period after Independence**

During the Second World War, the main emphasis of the cooperatives was food distribution and trading which lead to a decline of their interest to provide credit. In order to reactivate and enlarge the credit provision to farmers, the administration part of credit provision was directly handed over by the State to government departments for the period

between 1947-1967. It was first handed over to the Dept. of the Land Commissioner in 1947 and then to the Department of Food Production in 1952 and lastly to the Department of Agrarian Services in 1957. All of these Departments channeled credit to the farmers through cooperative societies.

The establishment of the People's Bank in 1961 was a very important step in the history of government's involvement in the provision of credit to the smallholder-farming sector in this country. One of the objectives in the establishment of this bank was to serve the rural sector. Hence, it established a number of branches to improve banking facilities in the rural areas to grant cultivation loans to the farmers through the credit departments of the Multi-Purpose Co-operative Societies (MPCS) called "Rural Banks."

The provision of credit under the administration of government departments was not satisfactory for reasons can be seen in the following example. By the year 1952, under credit administration of the Land Commissioner's Department, Rs.30 million had been granted but only 60 percent was recovered. Under the Department of Agrarian Services, the amount of credit disbursed declined year after year (the amount disbursed in 1963 was equal to half of the amount disbursed in 1957). The satisfactory level of loan repayment, which was there at the beginning gradually declined (10 percent rate of credit defaulting which prevailed before 1963 increased to 44 percent by 1967). The reason for this was the bad performance in the refraining of credit re-payment on a large scale by the co-operatives, which obtained credit from the Department of Agrarian Services (Fernando: 1979: 78-79).

### **2.3 New Agricultural Credit Scheme (NACS)**

Because of various malpractices and defects of the on-going agricultural credit scheme, a committee was appointed in 1966 to suggest remedial measures. Based on the recommendations that committee, the 'New Agricultural Credit Scheme' came into operation from 1967 with the assignment of the agricultural credit functions to the People's Bank by ending the governmental management of credit which prevailed for a period of 30 years. The introduction of this credit scheme was the commencement of government owned commercial banks playing a big role in the provision of short-term credit for cultivating paddy and other field crops.

Under NACS, the Central Bank provided refinance and a credit guarantee upto 75 percent of cultivation loans in default to the People's Bank. The People's Bank further used the co-operatives to disburse credit to the farmers. The Central Bank fixed the lending rate to the People's Bank initially at 1½ percent per annum. The People's Bank was to charge an interest of 5 percent per annum from the co-operatives. They charged 9 percent per annum from the farmers. A commission of 3 percent per annum was available to the co-operatives, which re-paid loans to the People's Bank. For the overdue loans, a penalty of 12 percent was charged from the defaulters.

The granting as well as recovery of loans under NACS was satisfactory at the beginning but it became unsatisfactory after few years of its operation. For example during the

1967/68 *Maha* cultivation season Rs.61.4 million was granted as paddy cultivation loans which declined to Rs.20.2 million in the 1972/73 *Maha* cultivation season. For the corresponding seasons the default rates were 14 percent and 36.4 percent.

## 2.4 Comprehensive Rural Credit Scheme (CRCS)

The failure of the People's Bank to recover the cultivation loans satisfactorily encouraged the Ministry of Agriculture to review the existing credit scheme and recommend a new one to replace it. This new scheme was called "Comprehensive Rural Credit Scheme". The main objectives of this scheme were: (i) to provide year round credit facilities so that people can borrow and repay to the Co-operative Rural Banks; (ii) to mobilize rural savings and encourage farmers to deposit the proceeds from the sale of their produce in Rural Banks; (iii) to integrate the numerous credit schemes for various agricultural purposes into a single scheme; (iv) to improve the recovery of credit; (v) to decentralize decisions regarding the granting of loans and to make provision for the development of a system of supervised credit (*Karunatilake: 1986: 98*).

Under this loan scheme, the People's Bank continued to lend through Rural Banks of the co-operative societies or directly through co-operative societies as when there were no rural banks established. The Bank of Ceylon, and the other state owned commercial Banks also participated to implement NCRCS through its branch networks especially established for that purposes at the Agrarian Services Centers<sup>1</sup>. The Hatton National Bank, a private Commercial Bank volunteered to implement it since 1974 (*Attanayake, 1997: 5*).

The performance of the CRCS was very similar to the NACS. Under the CRCS, a large amount was annually granted as cultivation loans, but there was no sign of improvement in their recoveries. For example, the amount of Rs.86 million which was granted as paddy cultivation loans during the 1974/75-maha-cultivation season increased to Rs.448 million in the *maha* season of 1977/78. But, the recovery rate in the corresponding years did not increase; e.g. it has been 74.7 per cent and 30.8 percent in the same season in corresponding years (see Table 2.1 for details).

After 1977 with the economic policy reform, the government introduced a 'stringent' credit policy. Under that, the financial guarantee previously accorded by the Central Bank was withdrawn and the lending banks were instructed to grant loans only to the credit worthy non-defaulting farmers. Under this policy, the only farmers who have paid up their past loans or those who are prepared to enter into agreement with the lending banks to repay past loans were eligible to obtain loans. The lending banks are also encouraged to take follow-up action and report serious defaulters to the Assistant Commissioner of Agrarian Services of the districts for legal action as a measure to recover past dues. This stringent policy led to a decline in amounts disbursed as cultivation loans. For example, the amount disbursed by People's Bank, Bank of Ceylon and Hatton National Bank during the 1978/79 cultivation year was Rs.65.7 million which

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<sup>1</sup> By 1977 there were 370 such branch offices established.

is far below the disbursement of Rs.452.3 million during the 1977/78 cultivation year. During the same period, the recovery rate has increased from 23.7 percent to 58.1 percent.

**Table 2.1: The Value of Credit Disbursed among Farmers under Different Cultivation Credit Schemes and Loan Recovery Levels (Position as at end of December)**

Cultivation Year	Loans Granted (Rs. Mil)			Recoveries (Rs. mil.)			Percent of Recoveries		
	Paddy	Other Crops	All Crops	Paddy	Other Crops	All Crops	Paddy	Other Crops	All Crops
1973/74	111	26	137	64	17	81	57.8	64.7	59.1
1974/75	86	23	109	64	15	79	74.7	63.7	72.4
1975/76	75	30	105	48	19	66	63.9	61.3	63.1
1976/77	102	58	160	54	31	84	52.8	52.5	52.7
1977/78	448	116	563	138	44	182	30.8	38.4	32.4
1978/79	59	20	79	50	18	68	84.7	88.5	85.6
1979/80	60	23	83	54	20	74	89.2	88.5	89.0
1980/81	84	34	118	75	31	106	89.8	89.0	89.5
1981/82	112	28	141	97	24	122	86.6	86.2	86.5
1982/83	148	27	174	130	24	154	88.2	90.3	88.5
1983/84	172	42	214	144	35	179	83.8	82.3	83.5
1984/85	122	38	159	104	31	136	85.5	83.5	85.1
1985/86	203	92	294	175	81	256	86.5	88.3	87.0
1986/87	269	68	337	229	60	289	85.4	87.4	85.8
1987/88	242	86	329	200	78	279	82.6	0.9	84.7
1988/89	167	86	253	157	79	236	94.1	82.1	93.4
1989/90	372	181	553	328	156	484	88.2	86.4	87.6
1990/91	588	234	822	490	187	674	83.3	80.0	82.4
1991/92	595	235	830	449	208	657	75.5	88.4	79.2
1992/93	569	255	824	497	224	721	87.4	87.7	87.5
1993/94	624	293	918	443	234	677	71.0	79.7	73.8
1994/95	723	257	980	559	209	768	77.3	81.3	78.3
1995/96	476	192	668	339	161	500	71.2	84.2	74.9
1996/97	412	178	590	314	134	449	76.4	75.3	76.1
1997/98	327	152	479	280	120	400	86.0	79.0	83.0
1998/99	312	151	463	269	118	388	86.0	78.0	84.0
1999/2000 (b)	381	122	503	255	73	328	67.0	60.0	65.0

1. Credit Schemes : Up to 1973 New Agricultural Credit Scheme. From 1973 to yala 1986 Comprehensive Rural Credit Scheme (CRCS). Since yala 1986 New CRCS.
2. Provisional

Source; Economic and Social Statistics of Sri Lanka (1999)  
Central Bank Annual Report, 2000

## 2.5 New Comprehensive Rural Credit Scheme (NCRCS)

The CRCS was replaced by the New Comprehensive Rural Credit Scheme in 1986 which had several new features. These included into rescheduling of loans to bring relief to those who lost their crops due to unavoidable reasons, extension of the loan facilities to a wide range of crops and provision of facilities to process loan applications of several

successive seasons in an one-shot operation instead of season by season loan approval (*Tennakoon* 1993:3).

NCRCS was designed to benefit farmers by charging an interest below the market rate. Before *yala* season of 1994, Central Bank charged 8.5 percent from the participating agencies with a 50 percent loan guarantee for lending farmers at 16 percent. The market rate of interest was 21-24 percent.

Despite many improvements done under NCRCS, cultivation loan delivery and recovery remained unsatisfactory. For example, even in better irrigated, intensively cultivated and relatively more productively *Mahaweli* system, only 10 percent of the farmers borrowed from NCRCS (*Tennakoon*: 1993). NCRCS credit is rationed and politicized as it was below the market rate, therefore, it was mainly distributed among people who had political influence. This leaked out funds to non-target households and non-target sectors. The banks also selected medium and large farmers in order to reduce risk. Hence, 25 percent of the loans were disbursed to farmers with more than 2.5 acres. This represents 15 percent of all borrowers of that scheme (*Khandker*: 1995: 22).

The new government (People's Alliance) came into power in 1994 and introduced the "Farmer's Relief Scheme". Under this, farmers who did default repayment of cultivation loans were given the opportunity to re-pay 25 percent of the amount outstanding in default and become eligible to obtain a fresh loan for the ensuing cultivation season. Under this relief package, many farmers become eligible to obtain a fresh loan. The 12 percent interest rate at this time which was lower than the market rate also attracted many farmers. The number of loans issued under this scheme in 1994 which was 58,836, thus increased to 82,000 in 1995. The amount granted (for all crops) was also increased from Rs.976 million to Rs.1190 million between the two years ie; 1994 and 1995 (Central Bank Annual Report,1999).

## 2.6 Assessment on the Government's Cultivation Loan Programme

The cultivation loan programme which lasted more than 5 decades under different names or different schemes which failed one after the other displayed some interesting characteristics as follows (*Tennakoon*: 1993: *Fernando*: 1979: 86)<sup>2</sup>

- i. Every time a new 'scheme' is introduced, the total value of borrowings is increased, but in successive years borrowings declined almost consistently.
- ii. During the first one or two years, recoveries remained somewhat high and then deteriorated rapidly.

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<sup>2</sup> The rules of the game of cultivation loan administration changed many a times and at every change, more or less the something appeared in different, colourful and impressive dressings with modified or different name tags (*Tennakoon* : 1993)

- iii. After about two years, the decline in borrowings fell sharply and recoveries dropped even more sharply, this decreased the number eligible for fresh loans by virtue of constantly increased defaults.
- iv. As a result of the "scheme" getting older, the bank losses increased and their interest in credit administration also declined sharply.

The above characteristics reveal that the cultivation loan Programme of the government has been unsuccessful and the symptoms of that was: (i) decrease of amount disbursed; (ii) decrease in the number of farmers obtaining loans; (iii) decline of repayments and increase of defaulters; (iv) decline of persons qualified to obtain loans; (vi) lack of interest of the banks to disburse credit, etc.

There are two types of causes for the failure of the cultivation loan scheme. One is the demand side and the other is the supply side. On the demand side there has been a heavy incidence of defaults, which many times led the banks to write off unrecovered credit (*Ratnayake: 1992: 78; Nakamura & et al.: 1997: 273; Gamage and et al.: 1988*). According to previous studies there are many reasons for high defaults and low repayment of agricultural credit in the smallholder-farming sector. Chief among the reasons are crop failure<sup>3</sup>, low returns from crops<sup>4</sup> and limited income sources<sup>5</sup> (*Wickramasinghe: 1987: 2*). The community attitudes about the institutional credit also have been a major factor for high defaulting. The attitudes of the rural community about institutional credit is that, it is a subsidy like food stamps for the rural community provided by the government. As they think it as a subsidy not to be repaid they assumed the government was likely to write off unpaid loans (*Ratnayake: 1992: 78, Nakamura and et al.: 1997:273*). According to some studies, the high transaction cost of the borrowers (high borrowing cost or high cost for obtaining credit)<sup>6</sup> difficulties in obtaining credit in time due to rigid rules and long procedures (bureaucratic procedures) and non-consideration of the banks to fulfill the total credit needs of the farmers have discouraged the attractiveness of formal credit to the smallholder farmer (*Fernando: 1987: 7-16*).

Looking at the supply side, the failure of the cultivation loan *programme*, despite some of the specific facts relevant to each credit scheme, are the common reasons applicable to the whole programme. Among those, rigid and unrealistic interest rate policy of the Central Bank and high administrative costs involved in distributing small loans to the smallholder farmers, have discouraged further involvement of banks to provide credit

<sup>3</sup> The agricultural activities in this country are more subjected to drought, floods and pest diseases. As such the relevant insurance payments are also not being paid on proper time.

<sup>4</sup> As a substantial number of the operational holdings in the smallholder farming sector is very small, they generates small income, which is subjected to risk due to unstable market conditions for the crops.

<sup>5</sup> Many of the smallholder farmers have no additional income sources other than cultivation.

<sup>6</sup> In obtaining credit, the borrower has to bear various types of costs, which include expenses in visiting the bank several occasions (obtaining information, applications, handing over of filled applications, receiving credit and repaying). It was to be added an opportunity cost for the days he is unable to involve in working of his farm or involve in other productive work. The increase of transaction cost increases real interest of credit.

under the same programme (Fernando: 1987: 16). The institutional defects such as supply of credit for smallholdings without examining the purpose and division of the responsibilities in collecting repayments and lack of support from the relevant institutions to collect the repayments have also been equally important factors for its failure (Ratnayake: 1992:78)

## 2.7 More Attention to “ Micro-credit”

As in other developing countries, the failure of state sponsored subsidized credit programmes in Sri Lanka led to various types of innovations and expansion of “micro-credit” systems since the beginning of the 1980s. “The term Micro-Finance” (MF) refers to the provision of financial services, usually in the form of small size financial transactions, to people who are unable to access such services from commercial institutions. They are usually among the poorest members of all societies” (Meyer: 2001: p1). Most of these financial transactions are directed for self-employment and income generation activities (small business). Another approach in implementing “micro-finance” is “credit-plus services”. According to this, micro-finance includes both financial as well as social intermediation services. Thus micro finance institutions are involved in the establishment of organizations, group formation, development of self-confidence, training in financial literacy and management capabilities (social intermediations) in addition to their involvement in promotion of savings and credit (financial intermediations). As such, micro finance is a development tool (Ledgerwood: 1998: 1). However, it is not compulsory that there are credit as well as credit plus services under any micro-finance schemes.

It is assumed that the major issues faced by the poor with the institutional credit systems such as lack of collaterals, high cost of borrowings and cumbersome procedures, can be solved by the micro-finance institutions. Group guarantees (social pressure) or compulsory savings (asset creation) are seen as substitutes for collaterals. Fort-nightly or monthly meetings of the groups provide, the opportunity to the members to solve their problems and to participate in decision-making, and automatically cut down not only the long procedures but also the borrowing cost. The micro financing institutions also can maintain not only a low administrative cost and a high recovery rate, but also a low interest rate.

Under different socio-economic and political contexts in developing countries over the years, various types of micro financing institutions have been evolved with change in their approach, procedures and methodology (Hussain: 1999: 80). In Sri Lanka too different types of micro finance institutions have come into existence. Few of them are government sponsored while many are NGO based. Despite the fact that the concept of “micro finance” became more popular after 1980s there have been some micro finance institutions in Sri Lanka since the beginning of the 20<sup>th</sup> century. The government’s commitment to provide credit for small holder farmers and the poor in rural areas through micro finance institutions can be seen after 1980s while the NGOs and CBOs also have accelerated their involvement in micro financing in this period. The impact of the government’s involvement in this field will be discussed by considering some micro

financing efforts such as Regional rural Development Banks (RRDBs), *Govijana* Banks (FBs) and Co-operative Rural Banks (CRBs). The progress of the NGOs and CBOs involvement will be discussed taking into account the activities of the Co-operative Rural Banks (CRBs), Thrift and Co-operative Credit Societies (TCCSs), *Sarvodaya* Economic Enterprises Development Services (SEEDS) and *Janasakthi* Banking Societies (JBSs).

## 2.8 Regional Rural Development Banks (RRDBs)

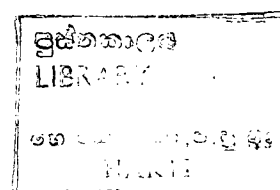
The RRDBs are specialized banking institutions created in 1985 with the objective of facilitating the credit and savings needs of rural areas which are not adequately met by the commercial banks (*Attanayake*: 1977: 10). Each RRDB is confined to a district and managed by a Board of Directors. One RRDB consists of a branch network established to serve all the villages in the district (*Karunatilake*: 1986:110-111).

By mid 1990s, RRDBs were established in 17 districts with a network of 175 branches. The RRDBs are both commercial and development banks. They attempt to provide credit to increase employment opportunities and income. To fulfill those objectives, they attempt to provide credit for various activities and groups, which are totally neglected by commercial banks. Those include short, medium and long-term credit facilities for agriculture, small industries, livestock farming, trade and commerce, marketing and transport etc. The decentralization of the banking system and recruitment of its staff on a regional basis are geared to fulfill the localized credit needs, while identifying target groups.

Although the RRDBs were semi-formal government financial institutions, they followed many features of micro finance institutions. Accordingly, they were involved in innovative banking practices in rural lending. One such practice was the fortnightly or monthly held "*Janahamuwa*" (village credit meeting). This opportunity takes the form of a mobile banking service where the RRDB staff explains to the rural people the credit facilities available by the bank and the basic principles of group formation. This forum provides the rural borrowers the opportunity to express their credit needs, problems, skills and capabilities, while the bank officers have the opportunity to motivate the rural poor to start income generating activities, mobilize savings, collect loan repayments and scrutinize loan applications. These simple banking procedures definitely reduce the transaction cost to the borrower compared to that of the commercial banks (*Jayamaha*: 1990:28-29).

Another innovative approach of RRDBs was the introduction of a "Group Lending Scheme" as in rural bank models of India and Bangladesh. The group-lending scheme helps the rural poor to reach the RRDBs without acceptable collaterals, obtain credit facilities and cultivate saving habits. In 1990, the *Anuradhapura* RRDB had nearly 1,000 small farmer production groups formed by more than 6,000 farmers.

At an early stage, the performance of RRDBs was satisfactory which was indicative of the high recovery rate of their loans, but in later years it decreased to the same level in credit recovery as other commercial banks involved in implementing the cultivation loan



scheme (Central Bank Annual Report 1989). As the RRDB's lending is demand driven, their overall role in agricultural finance is small. After 1994 with the cessation of providing Central Banks refinance facilities, the RRDBs also had to think about their sustainability, which refrained them from more risky lending. Since 1998, under restructuring of RRDBs the Regional Development Banks (RDBs) were established by amalgamating all the RRBs in a Province.

## **2.9 Revolving Fund Based Credit Scheme (RFBCS)**

The revolving fund for agricultural production and marketing development is hereafter referred to as the Revolving Fund Based Scheme. The then Ministry of Agriculture Development and Research set it up in 1993 in 4 Divisional Secretariat Divisions on an experimental basis. This was expanded into 75 DSDs in various districts by 1998. The main purpose of setting up this fund was to strengthen the easy access to credit by small farmers and disburse such credit under easy loan conditions, less procedures and low cost.

Treasury funds have been mainly utilized for establishing the revolving fund. The share holding capital of the farmers as well as the farmer organizations have also contributed for that. The Regional Development Division of the Ministry of Agriculture has managed this fund at a national level. The small farmer credit scheme initiated under the revolving fund was operated through the Divisional Secretariat Divisions (DSD) at sub-national level. The Ministry of Agriculture directly provided the funds to each DSD. It was expected to provide loans to farmers through the *Govi Jana Kendrayas* located under each DSD area. The Credit Management Committee (CMC) operated at each DSD managed the referenced credit scheme. This committee met once a month. The Chairman of the CMC was the Divisional Secretary, while DOs, AIs, and Extension Officers were members of the committee.

The smallholder farmers, farmer organizations and *Govi Jana Kendrayas* accepted agricultural production organizations and organizations involved in livestock production and marketing have been identified as the parties qualified for obtaining credit. The applications were submitted through the farmer organizations together with their recommendations. In this way the loan applicant was given recognition by a group (farmer organization), which was a substitute for collaterals. The interest charged for the farmer's loans was 1.3 percent per month. The farmer organizations were charged 1.2 percent per month for their loans. The *Govi Jana Kendraya's* could obtain loans at 0.75 percent interest while Co-operative Societies at 1.4 percent.

The total value of the capital allocated for DSDs, between the period 1991-97 under the Revolving Fund, was Rs.135.9 million. The main beneficiaries of this scheme have been the farmers. According to a recent impact evaluation study on the same issue, conducted by HARTI (*Jayasena: 1998: iv*), 66 percent of the loans taken by farmers from it had been used to cultivate paddy, while 31 percent had been used to cultivate subsidiary food crops. According to the same survey, the average loan repayment rate has been 52 percent. In some areas, it has been between 25-45 percent. The loan repayment has sharply declined after 1995. The reason for poor repayment was due to the fact that

farmers were discouraged to repay loans, by politicians at the 1994 election campaign, by promising to write off the agricultural loans, losses of farmers income due to natural calamities, lack of proper mechanism to recover loans, lack of a proper monitoring system and willful defaulting (*Jayasena: 1998: 35-36*). This scheme was discontinued with the amalgamation of its funds with the *Govi Jana Bank*.

## **2.10 Govijana Bank/ Agricultural Credit Scheme (GB/GBACS)**

The establishment of the “*Govijana Bank*” in 1995 was a fulfillment of a promise given by the People’s Alliance Government at the 1994 General Election to set up a rural financial institution to provide financial assistance to the farming community in the country under flexible conditions and at low interest rates. Between the period of 1995 and mid 1998 twenty *Govijana Banks* had been established in seven districts under the *Govijana Bank Pilot Project*. After mid 1998, it was implemented as a national programme. By mid 2000, there were 254 GBs in the country in 18 districts.

The GB was established as a rural financial institution to achieve several key objectives. Those were:

1. To provide credit facilities (both in terms of financial and material inputs) for small farmers, according to their needs and required time under soft loan conditions in order to maximize the agricultural production in the country.
2. To provide credit facilities required by small farmers to invest on agricultural processing, storing and marketing ventures.
3. To encourage the saving habit among farmers and provision of facilities to deposit them in a profitable manner.

It’s attempt to implement a rural credit scheme by enhancing farmer participation in raising funds and managing and implementing the credit scheme at grassroot level have been a specific feature of the *Govijana Bank*.

The Department of Agrarian Services is responsible for the implementation of GBACS at the national level. The GBs are established at Agrarian Services Centres presently known as “*Govjana Kendrayas*” which disburses credit to the farmers through the farmer organizations. Such farmer organizations had to become a partner/shareholder of the GB in these respective areas by purchasing minimum of 50 shares of the bank. The value of one share is Rs.100. For a farmer to become eligible to benefit from the GB he should; essentially be a member of the farmer organization in this area in addition to purchasing a minimum of one share. The other requirement is depositing Rs.500 or 10 percent of the value he is expecting to obtain from the bank. In addition to the deposits and savings of the farmer organizations and individual farmers, the capital funds of the GB consisted of funds provided by the Department of Agrarian Services. It has provided Rs.69.3 million to implement the GBACS by mid 2000 from funds allocated for the Revolving Fund.

Under GB, loans are issued to the small farmers for growing paddy and other commercial crops or agro-business activity at the annual interest rate of 10.5 percent. The loan recipient has to pay it within 6 months in lump sum or in installments. It is possible to increase the time frame with the permission of the credit management committee of the ASC. Those who do not settle the loan according to the new time frame have to pay a 2 percent additional interest as a fine. The amount of credit issued by a GB to a single farmer owning one acre of cultivable land is Rs.5, 000/- while it is Rs.10, 000 in case a farmer owns two acres.

**Table 2.2: The Progress of the Govijana Bank National Programme by Mid 2000**

Capital funds allocated for GBs	Rs. 69.3 million
Value of shares deposited by farmers	Rs. 11.8 million
Value of deposit accounts	Rs.13.4 million
Total value of available funds	Rs.81.2 million
Value of loans issued to farmers	Rs.90.7 million
Total No. of framers received loans	18,150

Source: Ministry of Agriculture and Lands

Examining the value of deposit accounts and the value of shares (see Table 2.2) the performance in achieving one objective of the GB, namely enhancing saving habits of the farmers, seems to have made little progress. The amount of farmers who benefited from it is also very low. The loan repayment rate seems to have been satisfactory, being 80.8 percent of total amount of loans disbursed. The repayment of the farmers who have borrowed for crop production and purchasing of agricultural implements has been very high (between 69.8 – 87.5 percent) compared to those who have borrowed for housing, settlement of previous loans, family illnesses, self employment etc. (*Jayatissa etel:* 2000: 33). Getting higher level of farmer participation to implement the GBACS by empowering them to select and approve the suitable loan recipients and educate them about the scheme and pursue the fellow members to repay loans are contributory factors for this progress. Further, the farmers are the guarantors for each of their fellow members and possibility of disqualifying all members of the respective farmer organization to receive credit in case of non-repayment of credit even by a single farmer, have contributed to this type of high repayments. The active involvement of *Govi Niyamakas* as well as the DOs for disbursing as well as recovering of loans of the FB as their entrusted duties has also contributed to that (*Jayatissa & et.el.:* 2000: 35-36).

The GBACS expansion is limited mainly due to lack of capital funds issued by the Dept. of Agrarian Services and defaulting of the loans taken by the farmers. The rate of defaulting has increased to 44 percent by 1999/2000 due to the heavy decline of farm gate prices of many local crops such as paddy, onion and potatoes.

There are many constraints in expanding the FBCS. Shortage of capital is a major problem in this regard. As it is very difficult to raise funds from farmers at a satisfactory level, the major sources of capital funds for GBACS has been the funds released by the Department of Agrarian Services. The amount between Rs.100,000 and Rs.300,000 issued

to a single ASC is inadequate to give to a sufficient number of farmers. The defaulting of loans taken earlier that is linked with low farm gate prices of the crops such as paddy, potato and b' onion has been another reason for this financial shortfall.

## **2.11 Thrift and Credit Cooperative Movement (TCCM/SANASA)**

The Thrift and Credit Cooperative Societies Movement of Sri Lanka known by the *Sinhala* acronym SANASA, is a country wide savings and credit system that has been operating since 1906 but with reactivation and expansion of its activities and membership after 1978. Its basic purpose is to provide financial services to the rural community.

The SANASA movement has a three-tier system including Primary Thrift and Credit Cooperative Societies (PTCCS) at village level, District Unions at district level and the Federation of TCCSs at National level (*Attanayake: 1997: 4*). The Primary Thrift and Credit Cooperative Society composed of a number of members ranging from 10 to 700 who contribute to the initial capital, attend meetings and make regular savings, are expected to democratically manage a society. So its members are its owners, beneficiaries and decision makers. The savings of the members create the basis for the lending Programme. The primary societies of the SANASA movement associate at the district level into district unions, which are managed by a management board that comprises of elected members. The District Unions elect representatives to the Federation. By 1995 there were 7,992 PTCCSs with a membership of 726,000. By the same year, the savings from local societies throughout the country was Rs.2,037 million of which Rs.1,677 million was disbursed as loans (*Kirivandeniya: 1997:57*).

SANASA has survived very effectively using the profits from its mobilized savings and its credit programmes, among which are also compulsory deposits, non-member's deposits and children's deposits.

To date, the basic achievement of SANASA has been to extend banking facilities to the rural population, especially to those who have no other sources of banking. To do this, it has used all of the potentials of the rural community, including human resources. Accordingly, the SANASA believes that each section of the rural population has something to give to the society. For example, it uses the leadership and management capability of retired people on a voluntary basis to develop the village societies.

In SANASA there is no discrimination for membership, either on age, sex, religion, caste or class. It expressly encouraged the poor and women. Unlike before its reorganization in 1978, a high proportion of its members at present belong to the category of poor (*Kirivandeniya: 1994: iv*).

One major reason for the success of the SANASA is its attempt to understand the issues (felt needs) and provide services required by the members. It encourages the members to openly engage in dialogue, express their views and listen to others. To cater to the various types of demands of the membership, the SANASA societies have formed issue-oriented sub-sections such as women's clubs, youth societies and low-income groups.

Accordingly, SANASA has been able to function not only as savings and credit unions, which caters to provide all credit needs (including production as well as consumption loans), but a provider of many other services inclusive of marketing (village shops) and educational (pre-schools) services.

The strength of its primary societies has also been a major reason for the success of the SANASA movement. All members of the primary societies consider the society as their own. So they put pressure on other members to repay the loans obtained from it. As a result, it has been able to maintain a 95 percent of loan repayment rate. This is a very satisfactory loan recovery rate for the sustainability of a community based savings and credit system.

## 2.12 Co-operative Rural Banks (CRBs)

CRBs have been an important retail banking agency operating in Sri Lanka since 1964. These banks were primarily the banking arms of the Multi-Purpose Cooperative Societies (MPCSs), which had spread their business activities to almost all the sectors in the country's economy. The main activities of the CRBs were mobilization of savings, extension of credit, engagement in pawning activities etc. Until the 1990s, the People's Bank provided guidance and banking facilities to the CRBs and it selected well run CRBs as its agents in implementing the new agricultural loan scheme since 1967. The CRBs played the major role in retailing agricultural credit among rural farmers as a junior partner of the People's Bank until the 1990s. Since there was a need for an open institution to lead CRBs to play their role in retail banking in 1992, District Co-operative Rural Banking Unions (DCBUs) were set up as apex bodies of CRBs in each district. The functions of DCBUs are to accept deposits from MPCSs, grant loans to MPCSs and invest their excess funds in suitable investments.

Meanwhile, MPCSs continued to operate their banking units through CRBs. CRBs have spread themselves over the entire rural areas. During 1999, 1,418 such CRBs operated in the country under 299 MPCSs. Their performance is indicated by the information's given in Table 2.3.

**Table 2.3: Some Information about CRBs by the end of 1999**

1. No. of savings accounts	Rs. 5.3 million
2. The value of deposits	Rs. 12,914.7 million
3. Value of loans granted in 1999	Rs. 350 million
4. Value of pawning activities in 1999	Rs.3824 million

Source: Central Bank Annual Report, 1999.

The CRBs' role as a village level financial institution was to ensure the effective use of financial resources mobilized within the sector, but it failed to do this. Only a little over 50 percent of the savings mobilized, have been ploughed back into the sector in form of credit while the rest left the sector by way of deposits made in the PB (Provincial Banks). This happened mainly because of less emphasis by the CRBs on lending, except on pawning advances (*Attanayake: 1997: 14*).

### **2.13 Samurdhi Development Credit Scheme**

The *Samurdhi* Bank Societies (SBSs) were set up as an integral part of the *Samurdhi* Movement, which was an island wide poverty alleviation programme of the People's Alliance government, which came into power in 1994. The SBSs are involved in mobilizing savings from and granting loans to *Samurdhi* members. By the end of 1999, 840 SBSs had been established throughout the country and the capital from 1,198,167 shareholders amounted to Rs.548 million. The value of the other deposits of the members was Rs.656 million (*Central Bank Annual Report: 1999:193*)

There are various types of credit programmes initiated by the SBSs to give credit to its members. By the end of 1999, the SBSs had granted 182,695 loans to the value of Rs.805 millions, to *Samurdhi* members to start small-scale businesses in agriculture, agro-processing, petty trading and to meet consumption requirements. As the loan repayments are being monitored continuously with the help of the Divisional Secretaries in the relevant areas, the repayments were satisfactory in many places.

### **2.14 Sarvodaya Economic Enterprises Development Services (SEEDS)**

"SEEDS" has evolved as a semi-formal financial institution through the experiences of the *Sarvodaya* Movement. Its development process involves 5 stages including (I) organizing a village meeting for identifying local needs; (II) Forming (one or more) community groups of villagers to act on the perceived needs; (III) Focusing on action programmes based on *shramadana* activities to satisfy basic needs; and (IV) Introducing micro-enterprises and self-employment programmes associated with savings and credit.

Hence, the main objectives of SEEDS were to uplift the living standards of the rural poor by supplying timely credit and credit plus services so as to enable them to commence viable and sustainable micro-enterprises (*Central Bank Annual Report: 1999:194*).

The SEEDS approach emphasizes the need to develop micro-enterprises with low capital investments and high labour investments. This micro-enterprise programme has mainly concentrated on the poorest section of the rural population. But, it approaches the community as a whole and works through the economic sub-committee of the *Sarvodaya* Society in each village, which manage savings and credit operations. This scheme is implemented through the field staff of SEEDS.

Some of the special features of this credit programme are as follows:

1. The ability to save is a pre-requisite to credit-worthiness. The borrowers must have saved for a minimum period of 6 months and put aside 10 percent of the total project capital towards a loan security fund.
2. Applicants for credit are not required to have collaterals other than to organize themselves into peer groups. The social pressure of these groups motivates repayments.

The SEEDS Credit Scheme has spread to most parts of the country (20 districts) with over 2,000 societies. At the end of 1999, it has mobilized Rs.425 million in savings and it has disbursed Rs.504 million as micro-credit (Central Bank Annual Report: 1999: 194). Its maximum loan size per member is Rs.3000. SEEDS assist the poor by providing information, marketing and skill development.

### **2.15 *Janashakthi* Banking Societies (JBS) at *Hambantota***

JBSs were first set up in 1989 as informal savings and loan associations by the Women's Development Federation, which is a non-governmental organization operating in *Hambantota* district. The vision of Women's Development Federation was to empower women in poor families in the area to become both socially and economically self-reliant. This vision was to be realized by employing a multi-pronged approach, which includes association, mutual help, inculcating awareness and education and micro-finance to promote income-generating activities.

The JBSs are based on a revolving fund, which consists of share capital and savings of poor women in the area who have become members and also involved in the process of management and decision-making. It can be identified as a village bank established and managed by the poor for the poor (*Hewavitharana*: undated: p.35). It provides small loans for viable income activities identified and accepted by the five-member group to which the loan taker belongs. The interest rate of loans is 30 percent per annum.

At the end of 1996, there were 67 JBSs consisting of 26,000 members in the *Hambantota* district. They had mobilized Rs. 28 million in the form of savings and investments in share capital. The lending stood at Rs.217 million. By 1999, the savings increased to Rs.46 million. The loans granted increased to Rs.228 million (Central Bank Annual Report: 1999: 193).

Obtaining as well as repayment of loans under it is considered as a group responsibility. Group pressure is exercised as an appropriate method to encourage repayment. The repayment rate of it is very high; over 75 percent on an average. When faced with a risk, the loan repayment is rescheduled to relieve the borrower.

## Chapter Three

### CHARACTERISTICS OF THE STUDY LOCATIONS

#### 3.1 Introduction

This chapter presents important background information about the study locations in order to form a basis to discuss various aspects of agricultural credit. Areas discussed are economic background, farming system, importance of paddy farming among income earning activities and other sources of income.

#### 3.2 *Anuradhapura* District

All the study areas are located in *Anuradhapura* District. From ancient times *Anuradhapura* has been synonymous with a great civilization based on irrigation systems. This historical factor has made the area inherit a large number of reservoirs and an economy based on paddy cultivation. Presently there are 38 major and 2,997 village irrigation schemes in the district (statistics of the District Provincial Agricultural Office, *Anuradhapura*). The district has been able to produce over 260,000 mt. tons of paddy in an year (2000 *maha* and 2001 *yala*). This accounts for about 9 percent of the paddy production in the country. As much as 60 percent of the production area are fed by large irrigation schemes while 19 percent by village irrigation. The rest which amounts to 11% is rain fed. The district is also important regarding other field crops such as coarse grains and pulses and also cattle farming.

#### 3.3 Background of the Study Locations and Their Farming Systems

Among the 4 study locations selected for this study, two are Track 5 and 12 of the *Rajangana* Irrigation and Settlement Project (one of the major irrigation Schemes), which belongs to the *Rajangana* Divisional Secretariat and *Govijana Kendraya* areas. The other 2 locations namely *Medawewa - Aliyavetunawewa* and *Keeriyagaswewa Gramaseva* Divisions belong to the *Kekirawa* Divisional Secretariat and *Govijana Kendraya* areas and represent the areas of small irrigation (village irrigation) schemes.

The *Rajangana* scheme came into operation in the mid 1960s. The scheme consists of two banks, the Left Bank belongs to *Kurunegala* District while the Right Bank belongs to the *Anuradhapura* district. Under the right Bank, the total developed area is 8,266 acres (1,346 acres of highland and 6,920 acres of lowland). At present, there are 4,502 families under the Right Bank, administratively divided into 18 Tracks and 21 *Gramasevaka* Divisions. Track 5 and Track 12 belongs to head-end and tail-end of the scheme respectively. Therefore, the availability of water, cultivation practices, physical and service infrastructure facilities and socio-economic conditions of the people among these two tracks have basic differences. Track 5 being at the head end is in a better state in all aspects (such as water availability, productivity, income, infrastructure and access to services) compared with Track 12 which is located around 8 miles away from Track 5.

Cultivation of paddy is the main economic activity in the *Rajangana* scheme. Cultivation during *maha* and *yala* cultivation seasons is a special feature in this scheme, when compared to other major irrigation schemes, where the scarcity of water generally permits only one cultivation season. Originally a settler was given 3½ acres of land in total consisting of 1½ acres of lowland for cultivating paddy, ½ acre of highland for home garden and 1½ acres of highland for cultivating other food crops under lift irrigation facilities. Some families in Track 5 and all families in Track 12 presently do not possess all the lands given under lift irrigation as they have abandoned those lands, which are located in far away, places.

However, the lands originally given for each family has been parcelized and thereby, the operational sizes have become smaller. For example, according to table 3.1, which indicates the distribution of farm families by size of operational lowland, in *Rajangane* about 12 percent of the families have been categorized according to size, class and land extent (one acre and less than that). However, 62 percent of families are operating lowlands between 1 to 2 acres, while 22 percent operate over 3 acres. According to Table 3.2, which indicates the size of operational highlands, 37 percent of the families are operating very small lands such as 0.5 acre or less.

**Table 3.1 Percentage Distribution of Farm Families by Size of Operated Lowland during 2000/01 *maha***

Size class (acres)	<i>Rajangana</i> Track 5	<i>Rajangana</i> Track 12	Major Irrigated Area	<i>Aliyawetuna wewa</i>	<i>Keeriyagas wewa</i>	Minor Irrigated Area	All Areas
Not operated	0.0	2.5	1.3	2.5	0.0	1.4	1.3
0 ≤ 0.5	7.5	2.5	5.0	7.5	20.0	12.9	8.7
0.5 ≤ 1.0	10.0	5.0	7.5	12.5	3.3	8.6	8.0
1.0 ≤ 2.0	60.0	65.0	62.5	20.0	30.0	24.3	44.7
2.0 ≤ 3.0	0.0	2.5	1.3	30.0	26.7	28.6	14.0
3.0 ≤ 4.0	12.5	12.5	12.5	10.0	10.0	10.0	11.3
More than 4.0	10.0	10.0	10.0	17.5	10.0	14.3	12.0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Number of farm families</b>	<b>40</b>	<b>40</b>	<b>80</b>	<b>40</b>	<b>30</b>	<b>70</b>	<b>150</b>
<b>Average size (Ac.)</b>	<b>2.34</b>	<b>2.57</b>	<b>2.45</b>	<b>2.86</b>	<b>2.42</b>	<b>2.67</b>	<b>2.56</b>

Source: HARTI Survey on MCIs in 2001

**Table 3.2 Percentage Distribution of Farm Families by Size of Operated Highland during 2000/01 Maha**

Size class (acres)	<i>Rajanganya</i> Track 5	<i>Rajanganya</i> Track 12	Major Irrigated Area	<i>Aliyawetuna</i> wewa	<i>Keeriyagas</i> wewa	Minor Irrigated Area	All Area
Not operated	35.0	35.0	35.0	27.5	33.3	30.0	32.7
0 <= 0.5	47.5	27.5	37.5	20.0	26.7	22.9	30.7
0.5 <= 1.0	7.5	15.0	11.3	35.0	30.0	32.9	21.3
1.0 <= 1.5	2.5	12.5	7.5	5.0	6.7	5.7	6.7
1.5 <= 2.0	7.5	2.5	5.0	5.0	3.3	4.3	4.7
2.0 <= 3.0	0.0	5.0	2.5	5.0	0.0	2.9	2.7
More than 3.0	0.0	2.5	1.3	2.5	0.0	1.4	1.3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Number of farm families</b>	<b>40</b>	<b>40</b>	<b>80</b>	<b>40</b>	<b>30</b>	<b>70</b>	<b>150</b>
<b>Average size (Ac.)</b>	<b>0.45</b>	<b>0.75</b>	<b>0.60</b>	<b>0.81</b>	<b>0.55</b>	<b>0.70</b>	<b>0.65</b>

Source: HARTI Survey on PMICs in 2001

The lands given for cultivation under lift irrigation system are used for cultivating chillies, pulses (cowpea and green gram) and vegetables. At present, some of the low lands are also being used for cultivation of banana and this has become more popular in track 12 where there is a water scarcity.

The *Medawewa - Aliyawetunawewa Gramasevaka* Division is located about 3 miles away from *Kekirawa* town. The *Keeriyagaswewa Gramasevaka* Division is located about 10 miles away from *Kekirawa* town and near the *Ritigala* mountain range. In *Medawewa - Aliyawetunawewa*, there are three village irrigation schemes namely, *Medawewa*, *Aliyawetunawewa* and *Kirimetiya*. Presently, there are 176 families in these villages. In *Keeriyagaswewa* division there are two village irrigation schemes, namely *Kaluebbe* and *Keeriyagaswewa*, where 117 families are residing. As this division is located some distance away from *Kekirawa* town, the road and other infrastructure facilities are in a poor condition.

The major economic activity of the people in divisions is cultivating paddy in the lands available under village irrigation schemes. Almost all the families in each division have inherited lands under a number of tanks. The size of the lowlands, which are operated by a single family, varies from ¼ acre to 5 acres. In both villages, about 29 per cent of the families are operating lowlands of one acre or less (see table 3.1). About 53 per cent are operating lowlands between 1 to 3 acres. However, 24 percent operates over 3 acres. In both divisions, over 55 percent of the families are operating highlands of one acre or less than that (see table 3.2).

In *Medawewa - Aliyavetunawewa* lowlands are cultivated only during *maha* season, but, in *Keeriyagaswewa* even during *yala* the low lands are cultivated. During *yala*, mainly other field crops are grown. In both divisions, chena cultivation is an important economic activity, but it is more popular in *Keeriyagaswewa* as there are more lands available for the purpose. Among agricultural activities, cattle rearing especially for selling of meat are also done in both locations.

The homogeneity among the people, kinship, traditional values, especially in *Keeriyagaswewa* have resulted in developing some specific characteristics of the society such as group cohesiveness and cooperation among its members.

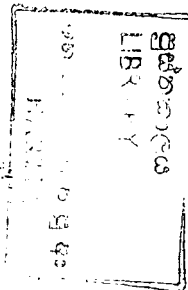
### **3.4 Sources of Income**

Examining the other income earning activities of the people in all study locations next to farming and animal husbandry, hired labour takes a prominent place (see table 3.3). It brings in an income for over 40 percent of the families. 25 percent of the families also derive their income from government or private sector jobs. Other sources of income are foreign employment and small businesses, which differ in magnitude of their contribution to the family income. As much as 45 percent of the families in the study areas benefit from *Samurdhi* Poverty Alleviation Programme, which means a substantial amount of families are below the poverty line. The percentage of such families is higher in the areas under minor irrigation schemes than in major irrigated areas. The higher productivity level of paddy, which is the major source of income in *Rajangana*, compared with other minor schemes of the study has contributed to this. The average yield per acre in *Rajangana* is over 90 bushels per acre, while it is less than 70 bushels per acre under minor schemes.

**Table No. 3.3: Various Income Sources of Paddy Dominated Households**

Various Income Sources of Income	Rajanganya Track 5	Rajanganya Track 12	Major Irrigated Area	Aliyawatuna wewa	Keeriyagas wewa	Minor Irrigated Area	All Area
	% of families reported	% of families reported	% of families reported	% of families reported	% of families reported	% of families reported	% of families reported
Cultivation/Livestock	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Government/Private sector Jobs	27.5	25.0	26.3	25.0	23.3	24.3	25.3
Hired Laborer	42.5	42.5	42.5	40.0	50.0	44.3	43.3
Foreign Employment	12.5	7.5	10	5.0	0.0	2.9	6.7
Other Employments	12.5	20.0	16.3	10.0	16.7	12.9	14.7
Samurdhi subsidiary scheme	35.0	12.5	23.8	50.0	60.0	54.3	44.7
Others	5.0	0.0	2.5	0.0	3.3	1.4	2.0

Source HARTI Survey on MCIs in 2001.



## *Chapter Four*

### **SITUATION OF AGRICULTURAL CREDIT IN THE STUDY AREAS**

#### **4.1 Introduction**

This chapter pays attention on various aspects of agricultural credit in the study areas. Those include ways and means of finding capital for investment in paddy farming, various sources from which people are used to obtain agricultural credit and the reasons for the popularity of different types of credit and sources, structural changes of credit systems and importance of micro-credit systems as a source of credit.

#### **4.2 Ways of Financing Agriculture**

Looking at ways of investing in agriculture by the families in the study areas, a great percentage appear to depend on credit for that purpose. According to table 4.1, which shows the responses of the sample families for the methods of financing agriculture, only 61 percent of the families use the income of the previous cultivation season as a capital for the current cultivation season. This indicates that 39 percent of sample families do not have an adequate income to reinvest in paddy farming. Even those who use the income of the previous season as a part of the capital of the current cultivation season have to depend on other means to find the balance capital. For example, out of 61 percent of the farmers mentioned above only one farmer depends on the income of paddy alone as the capital for the next season. As much as 43 percent of the families use income from salaried employments and businesses as the capital for paddy cultivation. For the same purpose, a large percentage of the families depend on loans, "*athamaru*" (loans without interest) and other types of borrowings such as pawning jewellery and mortgaging lands. Despite the locational variation when the whole area of the study is taken into account as much as 85 percent and 56 percent of the families responded as they are using the money obtained from loans and *athamaru* for that purpose. The families which are pawning gold are 52 percent while mortgaging lands are less than 2 percent to obtain money for investment on paddy cultivation.

**Table 4.1 Method adopted by the farmers to find the capital for the cultivation**

Method	Rajanganya Track 5	Rajanganya Track 12	Major Irrigated Area	Aliyawatuna Wewa	Keeriyagas wewa	Minor Irrigated Area	All Area
	% of families reported	% of families reported	% of families reported	% of families reported	% of families reported	% of families reported	% of families reported
Income from cultivation in the previous season	50.0	62.5	56.3	62.5	70.0	65.7	60.7
Income from other employment	42.5	40.0	41.3	40.0	53.3	45.7	43.3
Borrowing Loans with interest	85.0	85.0	85.0	85.0	86.7	85.7	85.3
Borrowing Loans without interest ( <i>Athamaru</i> )	52.5	52.5	52.5	65.0	53.3	60.0	56.0
Pawning gold items	42.5	67.5	55.0	60.0	33.3	48.6	52.0
Mortgaging lands	2.5	0.0	1.3	0.0	10.0	4.3	2.7
Others	2.5	0.0	1.3	0.0	3.3	1.4	1.3

Noteable: Addings are not equal to 100 as the farmers have mentioned a number of methods.

Source: HARTI Survey on PMICs in 2001

One factor, which needs to be emphasized, is that the pawning jewellery as a way of borrowing money has become more popular in the recent past. One reason for this has been that it is the easiest way to find money quickly especially for the poor who have no collateral as required by banks and other financial institutions. Gold is accepted by banks as well as private money lenders as securities. The survey observations revealed that many of the rural households purchase jewellery especially to pawn. The other reason for the expansion of pawning jewelery is the mushrooming of private banks and pawn brokers even in rural areas and local towns in the recent past. This has been a result of the liberal economic policies, which encouraged the establishment of banks and other financial institutions.

Mortgaging the paddy field, which the farmer is involved in cultivating to another person in order to find capital for the investment on the same land has become another popular phenomena in the rural areas including the study locations. The only difference of this method than normal mortgaging of lands is that, under this, the land owner himself is cultivating the land while making payment in paddy to the loan giver, until the amount obtained is repaid. The normal rate of the payment in the area is a bushel per season for borrowing of Rs. 1,000.

Whatever the type, pawning provides a useful mean of obtaining credit not only for production purpose, but also for consumption. Even these consumption loans play a useful role in the rural financial market. As farmers receive an income only after harvesting, consumption loans can be interpreted as a working capital loan that supports the production process.

### 4.3 Different Types of Credit

A complicated picture is seen in the rural sector with regard to rural credit. For example if any one asks a rural farmer whether he has taken credit for cultivation activities in a particular season he will say "no", if he has not borrowed cash for that purpose. But, the reality is that he might have taken various types of inputs and services to be paid later in kind or cash. The farmers do not call these non cash exchanges as "credit". In the study areas, obtaining of material loans as well as service loans are much popular. For example, the input materials such as fertilizers, chemicals and seeds are borrowed from traders. Services such as ploughing the lands, threshing, winnowing and transporting of paddy are provided by tractor owners. Meanwhile, some of those services and harvesting of paddy are provided by labourers to be paid later, in most cases after harvesting.

Table 4.2 shows the percentages of farm families who have obtained credit during 2000/2001 *maha* and 2001-yala cultivation periods under different types such as cash, kind and services (draught power). Accordingly, the loans obtained in kind and services are more popular than credit obtained on a cash basis. Even for non-agricultural purposes, the credit obtained in kind is more popular than credit obtained in cash. According to table 4.3 which depicts the percentage distribution of number of loans borrowed, under different types, about 80 percent have been on the basis of kind and service together. On a service basis alone it has been 52 percent. By looking at the amount borrowed, it shows that about 55 percent has been on these two credit types (in kind and service) (see table 4.4 for details). Out of 150 sample families in the study, only one family is recorded as not having taken services on a credit basis. Meanwhile, all the families are recorded to have obtained at least one material loan. This indicates the importance of those two types of credit operations in the study areas.

**Table No. 4.2: Percentage of Farm Families Who Have Borrowed Loans, by Type During Maha 2000/01 and Yala 2001**

Type of Loans	Rajanganya Track5		Rajanganya Track12		Major Irrigated Area		Aliyawetuna wewa		Keeragaswewa		Minor Irrigated Area		All Area	
	Agri. Loans	Non-Agri. Loans	Agri. Loans	Non-Agri. Loans	Agri. Loans	Non-Agri. Loans	Agri. Loans	Non-Agri. Loans	Agri. Loans	Non-Agri. Loans	Agri. Loans	Non-Agri. Loans	Agri. Loans	Non-Agri. Loans
Credit in Cash	55.0	20.0	62.5	15.0	58.8	17.5	50.0	2.5	36.7	0.0	44.3	1.4	52.0	10.0
Credit in Cash under mortgaging gold items	17.5	5.0	37.5	7.5	27.5	6.3	40.0	2.5	20.0	3.3	31.4	2.9	29.3	4.7
Credit in Cash under mortgaging Lands	10.0	2.5	7.5	0.0	8.8	1.3	5.0	0.0	3.3	0.0	4.3	0.0	6.7	0.7
Credit in Cash under mortgaging Other items	2.5	0.0	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0
Credit in Cash under Athamaru condition	25.0	32.5	37.5	42.5	31.3	37.5	45.0	32.5	43.3	26.7	44.3	30.0	37.3	34.0
Credit in Kind (Agricultural Inputs)	80.0	0.0	65.0	0.0	72.5	0.0	72.5	0.0	60.0	0.0	67.1	0.0	70.0	0.0
Credit in Draught Power	100.0	0.0	92.5	0.0	96.3	0.0	90.0	0.0	60.0	0.0	77.1	0.0	87.3	0.0
Credit in Kind (Consumable items)	0.0	52.5	0.0	42.5	0.0	47.5	0.0	62.5	0.0	63.3	0.0	62.9	0.0	54.7

Source: HARTI Survey on MCIs in 2001

Notable: Totals are not equal to 100 as the farmers have taken loans under a number of types.

**Table No. 4.3: Percentage Distribution of the Number of Loans, Borrowed Under Different Types During Maha 2000/01 and Yala 2001**

Type of Loans	Rajanganya Track5		Rajanganya Track12		Major Irrigated Area		Aliyawetuna wewa		Keeriyagas wewa		Minor Irrigated Area		All Area	
	Agri. Purpose	Non-Agri. Purpose	Agri. Purpose	Non-Agri. Purpose	Agri. Purpose	Non-Agri. Purpose	Agri. Purpose	Non-Agri. Purpose	Agri. Purpose	Non-Agri. Purpose	Agri. Purpose	Non-Agri. Purpose	Agri. Purpose	Non-Agri. Purpose
Credit in Cash	13.6	78.6	14.6	66.7	14.1	73.9	11.7	50.0	10.9	0.0	11.4	33.3	13.2	69.2
Credit in Cash under mortgaging gold items	2.4	14.3	6.2	33.3	4.3	21.7	7.6	50.0	5.0	100.0	6.7	66.7	5.1	26.9
Credit in Cash under mortgaging Lands	1.5	7.1	1.4	0.0	1.4	4.3	0.9	0.0	0.8	0.0	0.9	0.0	1.3	3.8
Credit in Cash under mortgaging Other items	2.1	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0
Credit in Kind (Agricultural Inputs)	29.8	0.0	25.9	0.0	27.8	0.0	26.0	0.0	27.7	0.0	26.6	0.0	27.4	0.0
Credit in Draught Power	50.7	0.0	51.8	0.0	51.3	0.0	53.8	0.0	55.5	0.0	54.4	0.0	52.3	0.0
<b>Total</b>	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: HARTI Survey on MCIs in 2001

Note: - The number of Credit in Cash under Athamaru system and Credit in Kind for Consumable items,  
Were not gathered from the respondents.

**Table No. 4.4: Percentage Distribution of Amount Borrowed Under Different Types of Loans  
During Maha 2000/01 and Yala 2001**

Type of Loans	Rajanganya Track5		Rajanganya Track12		Major Irrigated Area		Aliyawetuna wewa		Keeriyagas wewa		Minor Irrigated Area		All Area	
	Agri. Loans	Non-Agri. Loans	Agri. Loans	Non-Agri. Loans	Agri. Loans	Non-Agri. Loans	Agri. Loans	Non-Agri. Loans	Agri. Loans	Non-Agri. Loans	Agri. Loans	Non-Agri. Loans	Agri. Loans	Non-Agri. Loans
Credit in Cash	21.4	23.4	19.5	21.2	20.6	22.5	20.2	1.5	17.4	0.0	19.5	0.7	20.3	13.2
Credit in Cash under mortgaging gold items	3.0	3.3	12.6	6.3	7.3	4.5	9.2	3.7	8.6	0.3	9.0	2.0	7.8	3.4
Credit in Cash under mortgaging Lands	14.9	4.5	1.9	0.0	9.0	2.7	3.5	0.0	0.7	0.0	2.8	0.0	7.2	1.5
Credit in Cash under mortgaging Other items	3.3	0.0	0.0	0.0	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	0.0
Credit in Cash under Athamaru condition	6.7	25.7	7.5	31.3	7.0	28.0	9.5	34.5	10.6	9.8	9.8	21.8	7.8	25.4
Credit in Kind (Agricultural Inputs)	24.8	0.0	26.5	0.0	25.5	0.0	16.2	0.0	25.8	0.0	18.5	0.0	23.5	0.0
Credit in Draught Power	25.9	0.0	32.1	0.0	28.7	0.0	41.4	0.0	36.9	0.0	40.3	0.0	32.1	0.0
Credit in Kind (Consumable items)	0.0	43.1	0.0	41.2	0.0	42.4	0.0	60.3	0.0	89.9	0.0	75.5	0.0	56.5

Source: HARTI Survey on MCIs in 2001

#### 4.4 Sources of Credit

In the study area, there is a large number of credit sources. Basically, they can be categorized into three types, namely, as institutional, semi-institutional and non-institutional. According to the survey data, which were based on different types of credit obtained (in kind, cash and service basis) non-institutional sources have become more prominent. This prominence is indicated by both number as well as the amount of loans obtained. The relevant percentages are respectively 76 and 62. Next in importance are semi-institutional sources, their contribution being 18 and 23 percent of the number and amount of credit obtained. The institutional sources have come third, their contribution being 6 and 16 percents (see tables 4.5 & 4.6 for more details).

The major reasons for the importance of non-institutional sources have been the recent expansion of services of paddy collectors (traders) and the tractor owners who are providing cash loans and services on a credit basis under more flexible and convenient terms. The significance of these two sources have been a result of the liberal economy. Due to the liberal economy, a large number of lorry owning paddy collectors as well as tractor owners have begun to operate in the rural areas.

There is competition between paddy collectors within and outside the study areas to collect paddy from the study locations. As a strategy, the paddy collectors in the study areas like to give credit to the neighbouring farmers in advance, with the idea of recovering them from the payments they have to make, when the harvest is bought by themselves. These are interest free loans. The loan takers have a choice to sell their paddy to any trader, but as an obligation and for maintaining of a good relationship, they sell their paddy to the loan giver himself. This loan system is more beneficial to the farmers in the areas like Track 5 in *Rajangana* where there is a competition among the traders to collect paddy. But, in isolated areas it becomes more beneficial to the traders. For example, in Track 12 and the other two study locations (*Medawewa – Aliyawetunawewa* and *Keeriyagaswewa*), the farmers have to pay an interest rate ranging from 60 to 84 percent per year for the loans they have obtained from traders in towns like *Nochchiyagama* and *Kekirawa*. Unlike the traders in Track 5, the traders in concerned areas are paying a lesser price (than the market price) for the paddy of their loan taker farmers.

**Table No. 4.5: Percentage distribution of the number of loans borrowed in Cash, Kind & Draught Power for cultivation purposes during Maha 2000/01 and Yala 2001**

Source of Loan	Rajanganya Track 5	Rajanganya Track 12	Major Irrigated Area	Aliyawetuna wewa	Keeriyagas wewa	Minor Irrigated Area	All Areas
<b>Institutional Loans</b>	<b>3.5</b>	<b>5.4</b>	<b>4.5</b>	<b>9.0</b>	<b>5.0</b>	<b>7.6</b>	<b>5.5</b>
Peoples Bank	1.8	4.5	3.2	3.1	3.4	3.2	3.2
Bank of Ceylon	0.6	0.6	0.6	5.8	1.7	4.4	1.8
Seylan Bank	0.0	0.3	0.1	0.0	0.0	0.0	0.1
Hatton National Bank	0.3	0.0	0.1	0.0	0.0	0.0	0.1
Rajarata Development Bank	0.6	0.0	0.3	0.0	0.0	0.0	0.2
Private Pawn Brokers	0.3	0.0	0.1	0.0	0.0	0.0	0.1
<b>Semi-Institutional Loans</b>	<b>16.2</b>	<b>21.1</b>	<b>18.7</b>	<b>14.3</b>	<b>21.0</b>	<b>16.7</b>	<b>18.1</b>
Rural Bank	1.5	0.8	1.2	0.4	0.0	0.3	0.9
Sanasa	4.1	0.0	2.0	0.0	0.0	0.0	1.4
Samurdi Bank	1.2	0.3	0.7	3.6	1.7	2.9	1.4
Death Donation Society	0.3	12.1	6.3	0.9	1.7	1.2	4.6
Ritico Society	0.0	0.0	0.0	0.0	3.4	1.2	0.4
Govijana Bank/Yaya Demonstration	8.3	5.6	6.9	9.0	14.3	10.8	8.2
Farmer Organization	0.9	2.3	1.6	0.4	0.0	0.3	1.2
<b>Non-Institutional Loans</b>	<b>80.2</b>	<b>73.5</b>	<b>76.8</b>	<b>76.7</b>	<b>73.9</b>	<b>75.7</b>	<b>76.4</b>
Private Money Lender	0.6	0.3	0.4	0.4	0.0	0.3	0.4
Trader	26.3	16.9	21.5	16.1	9.2	13.7	18.9
Friends	18.3	6.8	12.4	3.6	3.4	3.5	9.5
Relatives	1.8	0.6	1.2	5.4	5.0	5.3	2.5
Rice Miller	0.0	1.4	0.7	0.4	0.0	0.3	0.6
Tractor Owner	29.2	44.8	37.2	47.1	52.1	48.8	41.0
Villagers / Land lord	4.1	2.8	3.5	3.6	4.2	3.8	3.6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: HARTI Survey on MCIs in 2001

**Table No. 4.6: Percentage Distribution of the Amount Borrowed in Cash, Kind & Draught Power for Cultivation Purposes During Maha 2000/01 and Yala 2001**

Source of Loan	Rajanganya Track5	Rajanganya Track 12	Major Irrigated Area	Aliyawetuna wewa	Keeriyagas wewa	Minor Irrigated Area	All Area
<b><i>Institutional Loans</i></b>	<b>18.5</b>	<b>12.2</b>	<b>15.7</b>	<b>18.3</b>	<b>9.7</b>	<b>16.2</b>	<b>15.8</b>
Peoples Bank	2.9	10.1	6.1	7.8	8.9	8.1	6.7
Bank of Ceylon	1.0	1.1	1.0	10.5	0.7	8.1	3.0
Seylan Bank	0.0	1.0	0.5	0.0	0.0	0.0	0.3
Hatton National Bank	13.1	0.0	7.2	0.0	0.0	0.0	5.2
Rajarata Development Bank	1.2	0.0	0.7	0.0	0.0	0.0	0.5
Private Pawn Brokers	0.3	0.0	0.2	0.0	0.0	0.0	0.1
<b><i>Semi-Institutional Loans</i></b>	<b>22.7</b>	<b>27.6</b>	<b>24.9</b>	<b>13.1</b>	<b>27.9</b>	<b>16.7</b>	<b>22.6</b>
Rural Bank	1.3	1.3	1.3	0.7	0.0	0.5	1.1
Sanasa	11.3	0.0	6.2	0.0	0.0	0.0	4.5
Samurdi Bank	1.2	0.2	0.7	5.9	2.1	5.0	2.0
Death Donation Society	0.1	17.1	7.7	0.2	1.9	0.6	5.7
Ritico Society	0.0	0.0	0.0	0.0	5.6	1.4	0.4
Govijana Bank/Yaya Demonstration	8.0	6.7	7.4	6.1	18.3	9.1	7.9
Farmer Organization	0.8	2.3	1.4	0.1	0.0	0.1	1.1
<b><i>Non-Institutional Loans</i></b>	<b>58.8</b>	<b>60.1</b>	<b>59.4</b>	<b>68.6</b>	<b>62.4</b>	<b>67.1</b>	<b>61.6</b>
Private Money Lender	0.7	0.4	0.5	1.2	0.0	0.9	0.6
Trader	25.7	19.0	22.7	11.5	6.9	10.4	19.2
Friends	8.7	4.9	7.0	3.5	9.2	4.9	6.4
Relatives	3.4	1.6	2.6	8.6	4.3	7.5	4.0
Rice Miller	0.0	1.5	0.7	0.2	0.0	0.2	0.5
Tractor Owner	14.6	25.8	19.6	38.3	36.4	37.8	24.8
Villagers / Land Lord	5.8	7.0	6.3	5.3	5.7	5.4	6.0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: HARTI Survey on MCIs in 2001

Among the traders, boutique owners also give credit in kind. The farmers have to settle those loans with an interest after harvesting. The interest ranges from 60 percent to 120 percent per year based on the location. The interest rate increases when the areas are more isolated where there are no proper roads, other infrastructures and competition to provide credit. In these cases, the real interest rate goes up when the farmer's other expenses (lost benefits) are added to the nominal interest rate. For example, when the inputs such as fertilizer, chemicals and seeds are obtained on a credit basis, the due commission of each item is not given. One example is, the amount the Track 12 farmers have to pay for a bottle of weedicide called "nominee", a small bottle costs Rs.1, 400/- in the market. When paid in ready cash a discount is given. The discount ranges from 10 to 30 percent based on the location. When it is purchased on a loan basis, no discount is given. A farmer, who obtains it under a loan at 84 percent per annum interest, has to pay Rs. 1792/= at the end of 4 months. If he buys it giving ready cash on the basis of a 15 percent discount, he has to pay only Rs. 1190/-. Thus on a loan basis, he has to pay an additional amount of Rs. 602/=. That means the interest of this loan transaction amounts to 152 percent per year.

Like paddy collectors, the tractor owners in the study areas compete with outsiders. They prepare lands too on credit basis. The farmers also see it as a flexible and easy way to obtain their service. The normal rate in the area to prepare an acre of land is Rs.1400/=. This rate does not change when it is paid after harvesting and selling paddy. So it has become beneficial for the poor farmers. But, this credit system does not operate in the same manner for the farmers in isolated areas like *Keeriyagaswewa*, where there is no competition among the tractor owners. Normally when the paddy fields are being prepared, the fuel cost has to be borne by the landowner. This cost will not be deducted from the due charge in the referenced isolated areas. So it can be considered as an interest for this type of service loans.

A number of factors have contributed to place semi-institutional sources (Micro-credit Systems) second in importance in terms of amount and number of loans taken. Among these, one has been the intervention of government institutions such as the Department of Agrarian Services, Irrigation Management Institute, *Samurdhi* Authority and Department of Co-operatives in addition to the intervention of Non-governmental Organizations such as SANASA and *SARVODAYA* to promote micro-credit systems. The other factor is the community people's self-initiatives to promote their own credit systems even through welfare organizations such as the Death Donation Societies. Among these semi institutional sources/ micro-credit institutions the *Govijana* Bank and Death Donation Society have become more dominant institutions, which deliver agricultural credit. However, the importance of each of them varies by location.

According to the survey, the contribution of conventional banks in the delivery of agricultural credit has further diminished.

The importance of non-institutional sources of credit would become somewhat less prominent in the study area, while semi-institutional sources of credit are more

prominent, when it doesn't include service loans (draught power). Tables 4.7 and 4.8 present information excluding service loans. According to the above tables, number and value of loans borrowed by farmers from non-institutional sources, in all study areas have been 50 and 49 percent respectively. Regarding semi-institutional sources, these figures have been 38 and 30 percent, while institutional sources have amounted to 12 and 21 percent.

**Table 4.7: Percentage Distribution of the Number of Loans Borrowed in Cash and Kind For Cultivation Purposes During Maha 2000/01 and Yala 2001**

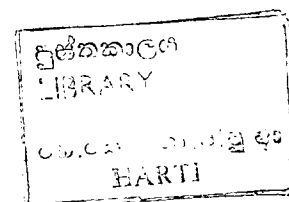
Source of Loan	Rajanganya Track5	Rajanganya Track 12	Major Irrigated Area	Aliyawetuna wewa	Keeriyagas wewa	Minor Irrigated Area	All Area
<b>Institutional Loans</b>	<b>7.2</b>	<b>11.4</b>	<b>9.3</b>	<b>19.4</b>	<b>11.3</b>	<b>16.7</b>	<b>11.6</b>
Peoples Bank	3.6	9.6	6.6	6.8	7.5	7.1	6.7
Bank of Ceylon	1.2	1.2	1.2	12.6	3.8	9.6	3.9
Seylan Bank	0.0	0.6	0.3	0.0	0.0	0.0	0.2
Hatton National Bank	0.6	0.0	0.3	0.0	0.0	0.0	0.2
Rajarata Development Bank	1.2	0.0	0.6	0.0	0.0	0.0	0.4
Private Pawn Brokers	0.6	0.0	0.3	0.0	0.0	0.0	0.2
<b>Semi-Institutional Loans</b>	<b>32.9</b>	<b>44.9</b>	<b>38.9</b>	<b>31.1</b>	<b>47.2</b>	<b>36.5</b>	<b>38.2</b>
Rural Bank	3.0	1.8	2.4	1.0	0.0	0.6	1.8
Sanasa	8.4	0.0	4.2	0.0	0.0	0.0	2.9
Samurdi Bank	2.4	0.6	1.5	7.8	3.8	6.4	3.1
Death Donation Society	0.6	25.7	13.2	1.9	3.8	2.6	9.8
Ritico Society	0.0	0.0	0.0	0.0	7.5	2.6	0.8
Govijana Bank/Yaya Demonstration	16.8	12.0	14.4	19.4	32.1	23.7	17.3
Farmer Organization	1.8	4.8	3.3	1.0	0.0	0.6	2.4
<b>Non-Institutional Loans</b>	<b>59.9</b>	<b>43.7</b>	<b>51.8</b>	<b>49.5</b>	<b>41.5</b>	<b>46.8</b>	<b>50.2</b>
Private Money Lender	1.2	0.6	0.9	1.0	0.0	0.6	0.8
Trader	50.9	35.9	43.4	35.0	20.8	30.1	39.2
Friends	6.0	6.0	6.0	2.9	7.5	4.5	5.5
Relatives	1.8	1.2	1.5	9.7	11.3	10.3	4.3
Villagers / Land Lord	0.0	0.0	0.0	1.0	1.9	1.3	0.4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: HARTI Survey on MCIs in 2001

**Table No. 4.8: Percentage Distribution of the Amount Borrowed in Cash and Kind For Cultivation Purposes During Maha 2000/01 and Yala 2001**

Source of Loan	Rajanganya Track5	Rajanganya Track 12	Major Irrigated Area	Aliyawetuna wewa	Keeriyagas wewa	Minor Irrigated Area	All Area
<b>Institutional Loans</b>	<b>21.7</b>	<b>16.8</b>	<b>19.7</b>	<b>29.8</b>	<b>15.2</b>	<b>26.1</b>	<b>21.2</b>
Peoples Bank	3.4	13.8	7.7	12.8	14.0	13.1	8.9
Bank of Ceylon	1.1	1.5	1.3	17.0	1.2	13.0	4.1
Seylan Bank	0.0	1.4	0.6	0.0	0.0	0.0	0.4
Hatton National Bank	15.3	0.0	9.0	0.0	0.0	0.0	6.9
Rajarata Development Bank	1.5	0.0	0.9	0.0	0.0	0.0	0.7
Private Pawn Brokers	0.3	0.0	0.2	0.0	0.0	0.0	0.2
<b>Semi-Institutional Loans</b>	<b>26.5</b>	<b>38.0</b>	<b>31.2</b>	<b>21.2</b>	<b>43.8</b>	<b>26.9</b>	<b>30.2</b>
Rural Bank	1.5	1.9	1.7	1.1	0.0	0.8	1.5
Sanasa	13.2	0.0	7.8	0.0	0.0	0.0	6.0
Samurdi Bank	1.4	0.3	0.9	9.7	3.4	8.1	2.6
Death Donation Society	0.2	23.5	9.7	0.4	2.9	1.0	7.7
Ritico Society	0.0	0.0	0.0	0.0	8.8	2.2	0.5
Govijana Bank/Yaya Demonstration	9.4	9.2	9.3	9.9	28.8	14.6	10.6
Farmer Organization	0.9	3.1	1.8	0.2	0.0	0.2	1.4
<b>Non-Institutional Loans</b>	<b>51.8</b>	<b>45.2</b>	<b>49.1</b>	<b>49.0</b>	<b>41.0</b>	<b>47.0</b>	<b>48.6</b>
Private Money Lender	0.8	0.6	0.7	2.0	0.0	1.5	0.9
Trader	30.1	26.1	28.5	18.7	10.8	16.7	25.7
Friends	10.2	6.7	8.8	5.8	14.5	8.0	8.6
Relatives	4.0	2.2	3.3	13.9	6.8	12.1	5.3
Villagers / Land Lord	6.7	9.6	7.9	8.6	8.9	8.7	8.1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: HARTI Survey on MCIs in 2001



The above figures can be used for comparing the present situation of agricultural credit with data of the Consumer Finance and Socio-economic Survey of the Central Bank of Sri Lanka. That survey has not encountered the said type of borrowings of services as credit. This survey has categorized sources of credit into two main groups; e.g. Institutional and non-institutional. According to that survey, 59 percent of the number of loans and 31 percent of the amount borrowed by the rural sector households are from non-institutional sources. But, according to the current survey of the HARTI, the above picture has changed. The number of loans obtained from non-institutional sources has decreased to 50 and the amount borrowed has increased to 49 percent. This decrease in the number of loans obtained has been due to the increase of semi-institutional sources and their disbursements. When the institutional sources are divided into "institutional" and "semi-institutional," the semi-institutional sources appear to have become more popular in the recent past. For example, the semi-institutional sources have provided 38 percent of the loans, while institutional sources have provided only 17 percent. With regard to the amounts borrowed, the contribution of semi-institutional sources was 30 percent, while it was 21 percent from institutional sources.

According to this survey, the role of the moneylenders in the rural sector has diminished. The number of loans and amount borrowed from them between 1996/97 and 2001/2002 decreased from 16 and 9 percent to 0.8 and 0.9 percent respectively. During the sample survey period, the contribution of the relatives and friends in the field of money lending has also decreased. This change has been from 41 percent in number and 21 percent in amount to 10 and 14 percent in number and amount respectively. Instead of the above groups (money lenders and relatives/ friends) the contribution of traders in money lending has increased. According to the present survey, their contribution has been 39 percent of the number of loans and 27 percent of the amount given. Compared to the moneylenders, the terms and interest rates of the traders are fair. Some of the traders who are involved in collecting paddy are not charging any interest. In this sense, the change in the sources of agricultural credit does not seem to have created a negative impact on the "small farmers".

## *Chapter Five*

### **THE ACHIEVEMENTS OF MICRO-CREDIT SYSTEMS**

#### **5.1 Introduction**

This chapter is about the involvement and success of micro-credit systems (MCS), in the study areas, in terms of satisfying agricultural credit requirements in the small holder-farming sector. Here special attention is paid to explain the type and nature of the MCSs in the study areas in addition to examining how they have solved each of the credit issues.

#### **5.2 Micro-Credit Systems**

In the study areas, a large number of credit institutions and other community organizations such as Death Donation Societies and Welfare Organizations were involved in mobilizing savings and credit. All of these can be called "Micro-credit Institutions" because they display such characteristics; the availability of share holder members as their owners, availability of built in capital through mobilized savings, availability of small groups who will act as credit guarantors, participation of their members in decision making by election of fellow members to the higher positions of the management, etc.

A total of 22 MCIs exist in the study areas. Their details are given in Table 5.1. In the areas under major irrigation, there are more MCIs compared to the areas under minor irrigation. One reason for this is the higher demand for agricultural credit in the major irrigation systems like Rajangana, where fertilizer and other inputs are well applied, than in minor irrigation systems selected for the study. The other reason for the above factor is the higher demand for credit and other types of services in Rajangana, where farmers' income levels are comparatively higher.

**Table 5.1: Micro-Credit Institutions in the Study Areas**

<b>Study Location</b>	<b>Micro-Credit Institutions</b>
Rajanganaya: Track 5	i. Randenigama SANASA Society.
	ii. SANASA Society in Track 5.
	iii. Tissapura Farmer Organization.
	iv. BOP 715/2, Lift Irrigation System Farmer Organization.
	v. Tissapura Annoniyadara Sangamaya.
	vi. Sadasarana Welfare Society.
	vii. Rajanganaya Govijana Bankuwa.
	viii. Rajanganaya 5 <sup>th</sup> mile post Samurdhi Banku Sangamaya.
	ix. Rural Bank of the Saliyapura Multi Purpose Co-operative Society.
Rajanganaya: Track 12	i. SARVODAYA Society in Track 12.
	ii. Farmer Organization in Track 12
	iii. Death Donation Society under Channel one in Track 12.
	iv. Eksith Avamangalyadara Samithiya under channel Two in Track 12.
	v. Angamuwa Samurdhi Banku Sangamaya.
Kekirawa : Medawewa Aliyawetunawewa	i. Aliyawetunawewa Govi Sanvidanaya
	ii. Medawewa Govi Sanvidanaya.
	iii. Eksath Subasadaka Sangamaya.
	iv. Olombewa Samurdhi Banku Sangamaya.
	v. Kekirawa Govijana Bankuwa.
Kekirawa: Keeriyagaswewa	i. Ekamuthu Givisanvidanaya in Kaluebbe.
	ii. Ganewalpola Samurdhi Banku Sangamaya.
	iii. Manawa Sampath Prajamula Sanvidanaya of the Ritico Foundation.

Out of 22 Micro-credit Institutions in the study areas, 11 (50 percent) are institutions specifically established for mobilizing savings and credit. The others such as Death Donation Societies have been established for other purposes, but mobilization of savings or disbursing credit have also been included into their roles too. Out of 22 MCIs', only 8 (36 percent) are operating as area organizations, which have expanded their coverage outside the study locations (among these included Govijana Banks, Samurdhi Banks, Co-operative Rural Banks etc.). The other 14 (64 per cent) are operating as community level organizations whose service coverage is limited only to the study villages. All Micro-credit Systems have been established or encouraged by a government organization or by an NGO, Except the Death Donation Societies and Welfare Organizations (which are 5 in number/23 percent) the rest have been established or encouraged by such an organization. The information about such organizations is as follows:

<b>Credit Organization</b>	<b>Sponsored Organization</b>
i. SANASA	: SANASA Foundation
ii. SARVODAYA	: Sarvodaya Enterprise Development (Ltd.)
iii. Farmer Organization	: Irrigation Management Institute/Dept. of Agrarian Services.
iv. Govijana Bank	: Dept. of Agrarian Services
v. Samurdhi Bank	: Samurdhi Authority of Sri Lanka
vi. Cooperative Rural Bank:	Rajangana Co-operative Society
vii. Manawa Sampath Prajamula Sanvidanaya :	Ritico Foundation

### **5.3 Credit Issues Focused**

The lack of access of small holder/poor farmers to credit is a major issue with conventional institutional credit systems. This is linked with a number of other issues such as lack of collaterals (securities), cumbersome procedures and the delay in obtaining loans, high interest rates including high transaction costs etc. These are the major issues observed when examined from the borrower's point of view. According to banking institutions, the reasons for both charging a high interest rate and following long procedures are due to the factors such as high transaction costs for lending small loans, poor repayment and high defaults of loans. These issues will be taken into consideration with an attempt to examine how they have been solved by the micro-credit systems and welfare-oriented organizations involved in credit mobilization in the study areas.

### **5.4 Solving the Problems of Lack of Collaterals**

The credit societies as well as the other welfare and community organizations in the study areas which are involved in disbursing credit to their members have taken necessary actions to solve the issue of lack of collaterals. Those actions are, the creation of assets of the individual members by encouraging them to save and purchase shares. To encourage members to save and purchase shares these organizations have decided on different rates depending on the value of the shares, to become eligible for loans (The tables about each of the MCIs in annex 1 give details about this). Table 5.2 indicates the MCIs in the study areas that have encouraged their members to save money and purchase shares. As depicted by this table, out of 22 MCIs, 50 percent was encouraged to practice both savings mobilization and purchasing of shares. The remaining 50 percent have done savings mobilization alone. Even the death donation societies and other welfare organizations have encouraged members to increase their savings through monthly payments of membership fees. When a person enters these societies as a new comer to obtain loans, he will be asked to pay an amount equal to the savings of other members.

**Table 5.2: Micro – Credit Systems in the Study Areas According to the Encouragement of Their Member’s Savings and Purchasing of Shares**

Type of Organization (Operations confined to the village only)	Rajanganaya Track 05	Rajanganaya Track 12	Medawewa – Aliyawetuna Wewa	Keeriyagaswewa
1. SANASA I	X +			
2. SANASA II	X +			
3. Sarvodaya		X +		
4. Farmer Organization I	X	X	X	X
5. Farmer Organization II	X		X	
6. Death Donation Society I/ Welfare Organization I	X	X	X	
7. Death Donation Society II / Welfare Organization II	X	X		
(Operations extended to outside as well)				
8. Govijana Bank	X +		X +	
9. Samurghi Bank	X +	X +	X +	X +
10. Cooperative Rural Bank	X +			
11. Ritico Foundation				X +
<b>Total</b>	X + : 5 (56 %) X : 4 (44 %)	X + : 2 (40 %) X : 3 (60 %)	X + : 2 (40 %) X : 3 (60 %)	X + : 2 (67 %) X : 1 (33 %)

Total X+ : 11 (50)  
X : 11 (50)

X + : Credit systems encouraged by their members for both savings and purchasing of shares

X : Credit systems encouraged by their members for savings only

Source: HARTI Survey on MCIS in 2001

The savings and purchasing of shares have developed the financial capital of the micro-credit systems giving them the opportunity to lend more to their members. Table 5.3 indicates the size of financial capital of each of the PMCS in the study area. Accordingly, over 47 percent of the MCIs have financial assets over Rs. 100,000. Over 45 percent of these have financial assets over Rs. 300,000. Over 18 percent of them have assets over Rs. 2 million. The Samurdhi Banks and Co-operative Rural Banks are in this category.

The system of forming small groups and application of group guarantee systems for the loans obtained by the fellow members are another method of trying to solve the issue of collaterals. The Samurdhi Banks, Sarvodaya Credit Societies and the grass root level credit societies of the Ritico Foundation have implemented a system of establishing small groups. The size of a small group of the Samurdhi Banks includes 5 members. To obtain a loan from that bank, in addition to the guarantee of all 5 members of a group, 25 percent equal to the value of the loan should have been saved in group savings. If a loan is not settled, the member would also lose the group savings. This will pressurize the group members to encourage the loan taker to repay the loan. With regard to Sarvodaya Credit Society, a small group consists of 7 members. To obtain a loan of less than Rs. 50,000/- a guarantee of 2 members is sufficient. But, to obtain a loan over the value of Rs. 50,000/-, all the 7 members' recommendation is required. The number of members of a small group of the Ritico Credit Societies is 5. According to the value of the loan, different amounts have to be in the group savings.

Although, there are no small group systems operating under all the MCIs in the study area, in all of them at least one member has to sign as a guarantor for each and every loan obtained by the fellow members. In some, two members have to sign as guarantors on behalf of the borrower. In the case of non-repayment of loans, the guarantors will be held accountable, thus they are expected to encourage the fellow members to repay the loans.

The responsibility and pressure of all the members in the credit organization, function as an effective mechanism to repay loans. The MCIs, which serve for a number of villages, consider each of the village level organizations, as the responsible body for the repayment of loans. For example under the Govijana Bank credit scheme, each farmer organization works as a responsible body for the loans obtained by their members from the GJB. The same system is operating under Samurdhi Banks and the Ritico Foundation. In each of these credit systems, village level societies will take the responsibility with regard to their member's savings and credit. So the monthly or fortnightly review of these societies regarding the credit repayment by their members would pressurize them to repay the loans.

**Table 5.3: Micro – Credit Systems in the Study Areas According to the Size of Their Financial Capital**

Type of Organization (Operations confined to the village only)	Rajanganaya Track 05 (Rs.)	Rajanganaya Track 12 (Rs.)	Medawewa – Aliyawetunawewa (Rs.)	Keeriyagaswewa (Rs.)
1. SANASA I	225,000.00			
2. SANASA II	414,128.00			
3. SARVODAYA		207,000.00		
4. Farmer Organization I	164,000.00	3,749.00	12,190.00	32,000.00
5. Farmer Organization II	380,000.00		19,300.00	
6. Death Donation Society I/ Welfare Organization I	300,000.00	222,668.00	30,000.00	
7. Death Donation Society II / Welfare Organization II	200,000.00	325,000.00		
(Operations extended to outside as well)				
8. Govijana Bank	770,203.00		884,590.00	
9. Samurdhi Bank	6,172,901.00	9,508,101.00	3,278,197.00	2,586,908.00
10. Cooperative Rural Bank	6,786,625.00			
11. Ritico Foundation				800,000.00
PMCS according to size of capital				
1. 0 – 100,000	-	1 (20 %)	3 (60 %)	1 (33 %)
2. 100,000 - 300,000	4 (44 %)	2 (40 %)	-	1 (33 %)
3. 300,000 - 600,000	2 (22 %)	1 (20 %)	1 (20 %)	-
4. Over 600,000	3 (34 %)	1 (20 %)	1 (20 %)	1 (33 %)

**Total: 1 : 5 (23%) 2 : 7 (32%) 3 : 4 (18%) 4 : 6 (27%)**

Source: HARTI Survey on MCIs in 2001

In addition to the security of an individual, small group or large group, some of the MCIs have laid down their own rules and regulations for securities of the loans. One example is the Tissapura Farmer Organization in Track 5 in Rajangana. When loans are given to the farmers by this organization, half an acre of their paddy land has to be mortgaged to the organization itself. The relevant document has to be signed by the borrowers to express their willingness to forfeit their paddy land, if they default. This has proved to be a successful method as a loan security. The Death Donation Society (Eksith Avamangalyadara Samithiya) of Tack 12 in Rajangana accepts Swarnaboomi Deeds as security for the loan to release Rs. 5,000/-. Until the loan is repaid, the deed is retained by the society.

All Death Donation Societies in the study locations consider future grants and other benefits of their members as securities for loans, which are taken by them. The Death Donation Societies collect a monthly fixed amount as a membership fee. If a death occurs, a fixed amount as funeral payment will be granted to the members. This varies from society to society based on the availability of resources. Some societies would grant Rs. 5,000/- while some would grant Rs. 10,000/-. In addition, food would be provided to the mourners of the funeral. The cancellation of the membership in case of non-repayment of loans means losing all of those benefits, which they are entitled to in the future. Except one society, which is in Track 12 in Rajangana, all other societies take action to cancel membership in case of non-repayment of loans. The society in Track 12 does not take action to cancel membership, but takes action to recover the due amount with relevant interest from the grant to be paid on an occasion of a funeral. Simultaneously, the guarantors are not given loans.

Violating rules and regulations or cheating in an association like the Death Donation Society is considered a very offensive act in village culture, therefore, cancellation of the membership rarely occurs and loans are generally repaid, since a very tactful loan security method is been used.

### **5.5 Flexible Procedures and Short Period of Time Instead of Cumbersome Procedures and Long Periods of Time**

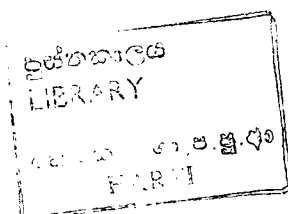
Because of the collateral problem and high risk involved in agriculture, different requirements such as arranging an insurance cover for the crop and producing a guarantor have to be fulfilled by the farmers as an assurance in paying back loans. So as pre-requirements of obtaining credit, the farmers have to follow a long procedure, which consists of different rules and regulations. As a result, it takes a long time to obtain a loan. Because the majority of the farmers have refrained from obtaining agricultural credit from commercial banks, there are not enough cases in the study sample to show the time spent to obtain agricultural credit from commercial banks. However, Table no. 5.4 indicates about 8 such cases. According to that, except one farmer who has spent about one month to obtain his loan, all others have been able to obtain loans within a week's time. All of these farmers are good customers of the Bank of Ceylon and Rajarata Bank,

have established a long relationship with those banks. This relationship has been a supportive factor for them to obtain loans very quickly.

The rules and procedures of the micro-credit systems in the study areas are very minimal and flexible. So the authorities have been able to issue credit within a very short period of time. The villagers/members themselves are the owners or Managers who make decisions. Rules and procedures have been adopted to suit their own requirements and aspirations. The management of the MCIs is a voluntary service. Their main aim is to perform a service to the society. So they always try their best to release credit as early as possible. On a mandate of this nature, they are ready to work at any time and any place.

Therefore, most of the MCIs in the study area were able to grant credit within a week's time. According to Table 5.5, over 50 percent of the number of such loans were obtained within a week's time. Under this category, 15 percent of the loans were obtained within a day. Some institutions like the Death Donation Society are ready to release emergency loans immediately with an agreement with the borrowers to produce the completed application later. Even the government owned Samurdhi Banks were able to release emergency loans within a day. Some times this can be obtained without even going to the bank, but by going to the Samurdhi Development Officers residence. These officers have been given permission to keep some amount of money and release emergency loans from it, subject to completion of procedural requirements later.

According to Table 5.5, it has taken more than 8 days to obtain 47 percent, of the total loans released from MCIs. Some institutions like the Farmers Bank, Samurdhi Bank, SANASA and Sarvodaya have their mother organizations or affiliated institutions outside the village, so that their approvals as well as the approval of the loan committees at the grass root level are required to release credit. This takes some time. However, in case of disbursing agricultural credit, these institutions start functioning in advance. So the farmers will be able to obtain credit on time. In that case there is no harm for the farmers, although it takes more time to obtain credit (here "the time" refers to the period from the date the application is tendered to the date the loan is released).



**Table 5.4: Duration Reported by the Farmers in Obtaining Agricultural Loans from Formal Institutions**

Time Period (Number of days)	Rajanganaya Track5		Rajanganaya Track 12		Major Irrigated Area		Aliyawetuna Wewa		Keeriyagas Wewa		Minor Irrigated Area		All Area	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
With one day	0	0.0	0		0	0.0	0	0.0	0		0	0.0	0	0.0
2 - 3	0	0.0	0		0	0.0	2	50.0	0		2	50.0	2	25.0
4 - 5	2	50.0	0		2	50.0	1	25.0	0		1	25.0	3	37.5
6 - 8	1	25.0	0		1	25.0	0	0.0	0		0	0.0	1	12.5
Over 8 days	1	25.0	0		1	25.0	1	25.0	0		1	25.0	2	25.0
TOTAL	4	100.0	0		4	100.0	4	100.0	0		4	100.0	8	100.0

Source: HARTI Survey on MCIs in 2001

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**Table 5.5: Duration Reported by the Farmers to Obtain Loans from Semi formal Institutions**

Time Period (Number of days)	Rajanganaya Track5		Rajanganaya Track 12		Major Irrigated Area		Aliyawetuna Wewa		Keeriyagas Wewa		Minor Irrigated Area		All Area	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
With one day	2	8.7	9	20.5	11	16.4	0	0.0	2	25.0	2	11.1	13	15.3
2 - 3	2	8.7	3	6.8	5	7.5	2	20.0	0	0.0	2	11.1	7	8.2
4 - 5	2	8.7	3	6.8	5	7.5	1	10.0	1	12.5	2	11.1	7	8.2
6 - 8	3	13.0	14	31.8	17	25.4	0	0.0	1	12.5	1	5.6	18	21.2
Over 8 days	14	60.9	15	34.1	29	43.3	7	70.0	4	50.0	11	61.1	40	47.1
TOTAL	23	100.0	44	100.0	67	100.0	10	100.0	8	100.0	18	100.0	85	100.0

Source: HARTI Survey on MCIs in 2001

Loans borrowed under pawning jewellery are not included

## **5.6 Low Interest Rates and Credit Cost Instead of High Interest Rates and Credit Cost**

The interest rates of the commercial banks which have to be paid by the small holder farmers are very high than the nominal interest rates of these because, the farmers have to bear the nominal interest rate as well as the credit cost (transaction cost). Normally, the farmers have to perform different requirements of the banks under different rules and procedures, they have to spend a large sum of money directly as well as indirectly. Among these, in addition to the expenses for stamps, taxes and other payments, the bus fares and day today expenditures for tea and meals for the guarantors have to be borne by the loan applicant. Any type of payment and the opportunity cost for the days spent are included in the indirect cost.

Table 5.6 indicates costs spent by the farmers to obtain loans from commercial banks. It does not present the real picture about the expenditure borne in obtaining credit, because only a very small number of farmers have obtained loans from the banks, and they have already established a good understanding thorough long-term trasactions. So out of 8 farmers who have obtained loans from the banks, 4 farmers (50%) have spent less than Rs. 100/- on these activities. The relevant farmers are in Track 5 and in Medawewa – Aliyavetunawewa. In addition to the close relationship of these farmers with the banks, which is a supportive factor to expedite the process of issuing loans, the closeness of the banks to their residences, has been a reason for this low expenditure. However, 2 farmers (25%) have spent over Rs. 100 and 2 farmers (25%) have spent over Rs. 400. It is surprising that one of them has spent Rs. 2,000 to obtain a loan of Rs. 10,000.

As the loan obtaining procedures, rules and regulations are very minimal and flexible under MCIs, it is not required to pay much to obtain credit from them, other than the stamp fees and in some cases the bus fares (most of them are in the village itself, it is not necessary to pay even the bus fare). In some institutions, stamp fees are not charged for small loans. For example according to Table 5.7, which indicates the cost spent by the farmers to obtain loans from MCIs, 9 percent have not spent anything. Then 88 percent of the farmers have spent less than Rs. 100 to obtain loans. A majority of them had to bear only the stamp fees, which is less than Rs. 15.

**Table 5.6: Cost Spent by the Farmers to Obtain Loans from Commercial Banks**

Cost per Loan (Ruppes)	Rajanganaya Track5		Rajanganaya Track 12		Major Irrigated Area		Aliyawetuna Wewa		Keeriyagas Wewa		Minor Irrigated Area		All Area	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
No Cost	0	0.0	0		0	0.0	0	0.0	0		0	0.0	2	25.0
<=100	2	50.0	0		2	50.0	2	50.0	0		2	50.0	2	25.0
100 <= 200	1	25.0	0		1	25.0	0	0.0	0		0	0.0	1	12.5
200 <= 300	0	0.0	0		0	0.0	1	25.0	0		1	25.0	1	12.5
300 <= 400	0	0.0	0		0	0.0	0	0.0						
> 400	1	25.0	0		1	25.0	1	25.0	0		1	25.0	2	25.0
<b>TOTAL</b>	<b>4</b>	<b>100.0</b>	<b>0</b>		<b>4</b>	<b>100.0</b>	<b>4</b>	<b>100.0</b>	<b>0</b>		<b>4</b>	<b>100.0</b>	<b>8</b>	<b>100.0</b>

Source: HARTI Survey on MCIs in 2001

49 **Table 5.7: Cost Spent by the Farmers to Obtain Loans from Micro- Credit Institutions**

Cost per Loan (Ruppes)	Rajanganaya Track5		Rajanganaya Track 12		Major Irrigated Area		Aliyawetuna Wewa		Keeriyagas Wewa		Minor Irrigated Area		All Area	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
No Cost	4	17.4	2	4.5	6	9.0	0	0.0	2	25.0	2	11.1	8	9.4
<=100	19	82.6	42	95.5	61	91.0	10	100.0	4	50.0	14	77.8	75	88.2
100 <= 200	0	0.0	0	0.0	0	0.0	0	0.0	1	12.5	1	5.6	1	1.2
200 <= 300	0	0.0	0	0.0	0	0.0	0	0.0	1	12.5	1	5.6	1	1.2
300 <= 400	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
> 400	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>TOTAL</b>	<b>23</b>	<b>100.0</b>	<b>44</b>	<b>100.0</b>	<b>67</b>	<b>100.0</b>	<b>10</b>	<b>100.0</b>	<b>8</b>	<b>100.0</b>	<b>18</b>	<b>100.0</b>	<b>85</b>	<b>100.0</b>

Source: HARTI Survey on MCIs in 2001

Loans borrowed under pawning jewellery are not included

The nominal interest rate for agricultural credit given by commercial banks is 12 percent per annum while for other activities it goes up to 18 percent. The reasons for these high interest rates are, the high administrative cost it has to bear with regard to small farming sector loans and the high rate of defaults in repayment. From the farmers' side, when the nominal interest rate of credit is added, their credit cost (the cost spent to obtain credit) the interest they have to pay goes up. With regard to agricultural credit, the interest the farmers have to pay changes from 15 to 25 percent per annum or more than that.

The community level MCIs in particular do not need to spend more for disbursing credit to their members. All the work including administrative work as well as the selection of candidates to give credit and necessary supervision and encouragement to recover credit are performed by the office bearers and their members voluntarily. So there is no additional cost to be borne by them in this regard. The office premises are located at the houses of the office bearers or at special buildings specially constructed for them, so there is no office rent. The only cost most of them have to bear is the cost for stationery. It was less than Rs. 500/- per year. The other MCIs, which are or are not linked with government institutions and have their own and permanent staff have to bear a higher cost than those. In many cases, it was lower than the cost borne by the commercial banks.

The average recovery rate of the credit given by MCIs in the study areas were about 95 percent. However, in a majority of them, there was a 100 percent recovery rate. Defaulting was very rarely recorded. As their administrative cost is low and the recovery rate was very high, the community based MCIs referred above can maintain a very low rate of interest for their credit. That rate may be determined by the inflation rate and the interest rate they pay for the savings. However, the present interest rates of many of the MCIs in the study areas do not reveal the possible interest rates that can be applied. For the purpose of expanding financial resources, many of them have taken action to keep their interest rates at a higher level with the consent of their members. Hence, except in Govvijana Banks (where the interest rate is 10.5 percent per annum) in all other MCIs in this study, the nominal interest rate for any loan is 24 percent or above per annum (However, there is one rare case to indicate a different picture, e.g. The interest rate for consumption loans of the Samurdhi Bank is 18 percent per annum).

### **5.7 Better Repayment and Low Default Instead of Poor Repayment And High Default**

The poor repayment and high default of the loans have been some of the major issues faced by the conventional commercial banks. The data obtained from sample families under this survey does not indicate a satisfactory level of recoveries, as there was still time to repay some of the loans obtained before the survey was conducted.

However, the observations about the recovery of credit obtained in the past from MCIs in the study area revealed that on an average, the recovery rate was around 95 percent. This 5 percent short fall was due to the unsuccessful strategies used by a few MCIs in recovering credit. (among these there are different types of MCIs including Sarvodaya

Society in Track 12, Govijana Bank in Kekirawa, Samurdhi Bank in Ganewalpola and Farmer Organizations in Medawewa - Aliyawetunawewa etc.). Except for these credit institutions, the recovery rate of others was 100 percent (The SANASA Societies and the Death Donation Societies in the study areas are within this category).

The MCIs in the study area followed some common as well as specific strategies to recover credit. Among the common strategies adopted, exerting social pressure on small as well as large groups (all members) is very important. Another strategy in this nature is the cancellation of the opportunity of the guarantor as well as the borrower to obtain further loans. Among the specific strategies, the cancellation of the membership of the organizations like Death Donation Societies is important. Since the society is very important for every one in the village, social pressure prevents them from cheating. Cancellation of membership means the defaulters will lose the welfare benefits too.

The government sponsored MCIs such as Govijana Banks and Samurdhi Banks have utilized the service of bottom level officers like Agricultural Research and Production Assistants and Samurdhi Development Officers respectively to encourage repayment of the loans. This has become more successful, especially under a programme like Samurdhi, the granting of subsidies can be easily stopped in case of defaulting of the loans. This is utilized as a strategy to recover credit. So, under Samurdhi loans, the repayment rate is over 100 percent. In most of the cases, the repayment has been made in advance by the Samurdhi Development Officers. Because of this, there is a recorded repayment rate ranging from 110 to 120 percent. Utilizing the services of Agricultural Research and Production Assistants to recover credit disbursement by the Govijana Banks had also been successful. Similarly, they have been successfully involved in the recovery of the credit disbursement by the farmer organizations under their preview, such as the Tissapura Farmer Organization in Track 5. The Bop 712/2 Lift Irrigation System Farmer Organization in the same Track would pursue behind the members, without support of any field officer, to recover the loans just after harvesting paddy. This has also been a successful strategy of its own to recover credit.

## **5.8 Poor Farmer's Accessibility and Satisfaction of their Credit Requirements**

The flexible credit rules and regulations and affordable type of collateral requirements of the MCIs in the study area have permitted the small farmers to have easy access to them. According to Table 5.8, which indicates the percentage of sample families, which have obtained membership in each PMCI in the study area, a substantial percentage of them seem to have had access to them by obtaining the membership. The level of access of the sample families is different "among" different MCIs. For example 59 percent of the families have got membership in Farmer Banks while 38 percent have got membership in Death Donation Societies. Meanwhile, 37 percent have accessed the Samurdhi Banks. Some of the inevitable factors have also contributed for the limitation of membership in some of them. For example, in Samurdhi Banks except for the Samurdhi recipients, other persons cannot get the full membership according to the regulations. Then, operation of

some MCIs is limited to one or two study locations, so that the percentage of the families of the whole study area, that has got the membership, is low, e.g. SANASA and Ritico Foundation.

**Table 5.8: Percentage of Farm Families who have Obtained Membership from the Micro Credit Institutions**

Type of Micro-credit Institutions	Rajanganaya Track 5	Rajanganaya Track 12	Major Irrigated Area	Aliyawetuna Wewa	Keeriyagas Wewa	Minor Irrigated Area	All Areas
Rural Bank	12.5	22.5	17.5	7.5	3.3	5.7	12.0
SANASA	32.5	0.0	16.3	0.0	0.0	0.0	8.7
Samurdhi Bank	30.0	12.5	21.3	52.5	60.0	55.7	36.7
Farmer Bank	62.5	55.0	58.8	60.0	60.0	60.0	59.3
Sarvodaya Bank	0.0	32.5	16.3	0.0	0.0	0.0	8.7
RITICO	0.0	0.0	0.0	0.0	33.3	14.3	6.7
Death Donation Society	15.0	65.0	40.0	47.5	20.0	35.7	38.0

Source: The HARTI Survey on MCIs in 2001

Notable: The totals are not equal to hundred as some farmers have become members of several credit societies.

The above-mentioned MCIs referred to have taken action to satisfy both agricultural as well as non-agricultural credit requirements of the farmers. They have paid more attention especially on agricultural credit, as it is a prime need of the farmers in the study areas. Thus, even the Death Donation Societies have initiated credit programmes. Table 5.9 indicates the maximum amount of credit that can be obtained from each PMCI for both agricultural as well as non-agricultural activities. Accordingly, out of the 22 MCIs 17 (77%) have initiated agricultural credit schemes. Meanwhile 9 (41%) of them have initiated credit schemes for self-employments and generation of incomes. Some of the limited MCIs have initiated credit schemes for other requirements such as construction of houses, wedding ceremonies, consumption purposes and emergency requirements (see Table 5.9 for details).

The minimum level of the agricultural credit ceiling of the MCIs, which have initiated agricultural credit schemes, is Rs. 5,000 (see Table 5.9 for details). There are MCIs with higher credit ceilings. For example, in 8 (47%) MCIs, the agricultural credit ceiling is Rs. 10,000 or above (within this category there is a Death Donation Society also which give Rs. 10,000 as agricultural loans). In 7 (32%) MCIs the agricultural credit ceiling is Rs. 15,000 and above. The credit ceiling of some MCIs is Rs. 25,000. Some of the Samurdhi Banks and SANASA Societies belong to this category. In one of the Samurdhi Banks, it is Rs. 50,000.

The credit ceiling of all the MCIs for self-employment is over Rs. 10,000. In a majority of MCIs (8 or 89%), the credit ceiling is Rs. 15,000 or above. The credit ceiling of Rs. 25,000 is same in all Samurdhi Banks, Sarvodaya and the Ritico Foundation.

**Table 5.9: The Maximum Amount of Credit Obtainable for Different Purposes  
From Micro - Credit Systems**

Type of Organization (Operations confined to the village only)	Rajanganaya Track 05 (Rs.)	Rajanganaya Track 12 (Rs.)	Medawewa – Aliyawetunawewa (Rs.)	Keeriyagaswewa (Rs.)
1. SANASA I	25,000.00 * 10,000.00 ** 1,000.00 x			
2. SANASA II	20,000.00 * 20,000.00 ** 1,500.00 x			
3. Sarvodaya	5,000.00 xx 50,000.00 ** 1,000.00 x			
4. Farmer Organization I	5,000.00 *	5,000.00 *	5,000.00 *	5,000.00 *
5. Farmer Organization II	5,000.00 *		5,000.00 *	
6. Death Donation Society I/ Welfare Organization I	1,000.00 x	5,000.00 *	1,000.00 x	
7. Death Donation Society II / Welfare Organization II (Operations extended to outside as well)	2,000.00 x 5,000.00 x	10,000.00 *		
8. Govijana Bank	5,000.00 * (per acre)		5,000.00 * (per acre)	
9. Samurdhi Bank	25,000.00 * 25,000.00 ** 10,000.00 # 500.00 ##	50,000.00 * 30,000.00 ** 2,000.00 # 1,000.00 ## 10,000.00 +	25,000.00 * 25,000.00 ** 25,000.00 +	15,000.00 * 25,000.00 ** 5,000.00 +
10. Cooperative Rural Bank	15,000.00 * 15,000.00 ** 25,000.00 # 500.00 ##			
11. Ritico Foundation				25,000.00 ** 1,000.00 # 500.00 ##

\* Agricultural Loans    \*\* Self Employment/Project/Business Loans    x Emergency/Quick Loans  
xx Short Term Loan    # Consumption/Housing/Wedding Loans    ## Distress Loans    + Fisheries Loans

Source: HARTI Survey on MCIs in 2001

The majority of the families in the study sample are satisfied with the MCIs especially with regard to agricultural credit requirements. In this sense, Govijana Bank, Death Donation Societies and Samurdhi Banks have rendered a great service. According to Table 5.10 -38, 18 and 10 percent of the families respectively in the study sample have obtained agricultural loans during the past year from these three MCIs.

**Table 5.10: Number and Percentages of Farm Families which Borrowed Loans from Different Sources of Micro-credit Institutions by Type of Irrigation**

Source of Participatory Micro-credit Institutions	AGRICULTURE CREDIT						NON AGRICULTURE CREDIT					
	Major Irrigation		Minor Irrigation		All Area		Major Irrigation		Minor Irrigation		All Areas	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Rural Bank	6	7.5	1	1.4	7	4.7	1	1.3	0	0.0	1	0.7
SANASA Bank	8	10.0	0	0.0	8	5.3	1	1.3	0	0.0	1	0.7
Samurdhi Bank	5	6.3	10	14.3	15	10.0	2	2.5	0	0.0	2	1.3
Govijana Kendraya	27	33.8	30	42.9	57	38.0	0	0.0	0	0.0	0	0.0
Sarvodaya	0	0.0	0	0.0	0	0.0	2	2.5	0	0.0	2	1.3
Death Donation Society	24	30.0	3	4.3	27	18.0	0	0.0	0	0.0	0	0.0
RITICO Foundation	0	0.0	4	5.7	4	2.7	0	0.0	0	0.0	0	0.0
Farmer Organization	7	8.8	1	1.4	8	5.3	0	0.0	0	0.0	0	0.0
<b>TOTAL</b>	<b>55*</b>	<b>68.8</b>	<b>41*</b>	<b>58.6</b>	<b>96*</b>	<b>64.0</b>	<b>6</b>	<b>7.5</b>	<b>0</b>	<b>0.0</b>	<b>6</b>	<b>4.0</b>

Source: HARTI Survey on MCIs in 2001

Note: \* These do not tally with the total of above figures as some farmers have obtained more than one loan

Only 4 percent of farm families in the study sample have utilized MCIs to obtain credit for non-agricultural activities. The credit programmes initiated for self-employment and income generation are less utilized due to the farmers' devotion towards agricultural development. Even the emergency and short-term loan programmes, which are implemented by the Death Donation Societies and some other institutions, are utilized for the supply of agricultural inputs such as fertilizer and chemicals.

Table 5.11 indicates, the amount borrowed by different families in the study sample, from different MCIs, both for agricultural as well as non-agricultural purposes. According to this, the average amount borrowed by each family for agricultural purposes from any MCI was over Rs. 3000/-. The amount borrowed from some sources like SANASA was over Rs. 21,000/-. One of the reasons for this is that some families have borrowed more than one loan. The other reason is the implementation of a higher credit ceiling. Table 5.12 shows the amount of credit disbursed by each MCI for different purposes and the number of families that has benefited from them.

**Table 5.11: Amount Borrowed per Family from Different Micro-credit Institutions**

Source of Micro-credit Institutions	AGRICULTURAL CREDIT			NON AGRICULTURE CREDIT		
	Major Irrigation	Minor Irrigation	All Area	Major Irrigation	Minor Irrigation	All Areas
Rural Bank	6092	5500	6007	3000	0	3000
SANASA Bank	21625	0	21625	10000	0	10000
Samurdhi Bank	4150	5490	5043	2350	0	2350
Govijana Kendraya	7622	3314	5355	0	0	0
SARVODAYA	0	0	0	11500	0	11500
Death Donation Society	8938	2333	8204	0	0	0
RITICO	0	3750	3750	0	0	0
Farmer Organization	5698	1150	5130	0	0	0

Source: HARTI Survey on MCIs in 2001

Table 5.12 indicates the amount of credit released for the concerned one-year period from MCIs for different purposes and the number of families who has obtained credit from them. According to that 14 (82%) of MCIs, which grant agricultural credit, have released more than Rs. 100,000 while 8 (47%) have released over Rs. 500,000 and over Rs. 1,000,000.

Regarding the non-agricultural loans, the amounts obtained during the concerned period by a family in the sample, has been over Rs. 2000 and its maximum amount has been over Rs.11, 000, which has been obtained from the Sarvodaya society. The members could get increased amounts from them by showing their honesty through early repayment of the loans.

Regarding self-employment and business loans, 5 (56%) of the MCIs, which have initiated such loans, have released over Rs. 500,000 within the concerned period, while 3 (33%) of them have released over one million rupees.

**Table 5.12: The Amount of Credit Released for Different Purposes from MCS  
And the No. of Farm Families That Had Obtained Credit**

Type of Organization (Operations confined to the village only)	Rajanganaya Track 05 (Rs.)	Rajanganaya Track 12 (Rs.)	Medawewa – Aliyawetunawewa (Rs.)	Keeriyagaswewa (Rs.)
1. SANASA I	669,000 *(62) 48,500 *(49)			
2. SANASA II	1,009,800*(56) 80,870 **(-) 97,600 *(-)			
3. Sarvodaya	220,000 ***(36) 150,000 ***(14) 40,000 *(55)			
4. Farmer Organization I	140,000*(80) =266,665*(89)	=191,358*(43)	=18,593*(11)	=91,608*(32)
5. Farmer Organization II	79,000*(23) =80,000*(27)		=30,291*(14)	
6. Death Donation Society I/ Welfare Organization I	78,000 * (39)	310,000*(62)	18,000 * (18)	
7. Death Donation Society II / Welfare Organization II	173,200 * (49) 6,000 *(12) (distress) 30,000 #(04)	303,000 *(80)		
(Operations extended to outside as well)				
8. Govijana Bank	2,319,322 * (555)		590,632 * (555)	
9. Samurdhi Bank	4,729,500 * (1525) 3,946,000 ** (538)	587,000 * (82) 1,295,000 ** (110) 15,000 # (2) 17,000 ## (18) 6,000 +(6)	1,341,500 * (205) 549,000 ** (80) 25,000 + (4)	1,892,500 * (292) 1,370,000**(191) 10,000 + (2)
10. Cooperative Rural Bank	130,000 *(13) 30,000 ** (2) 4,000 # (1)			
11. Ritico Foundation				575,500 ** (142)

\* Agricultural Loans \*\* Self Employment Loans \* Emergency Loans

\*\* Short Term Loans (Agriculture) # Consumption/Housing/Wedding Loans

## Distress Loans = This credit has been arranged from Govijana Bank

Note : Within brackets are no. of farm families, but some families might have been counted more than once.

Source: HARTI Survey on MCIs in 2001

## *Chapter Six*

### **THE PROBLEMS OF THE MICRO-CREDIT INSTITUTIONS**

#### **6.1 Introduction**

This chapter attempts to show how the farmers view the MCIs and the problems they face in obtaining benefits from them, in addition to the problems the MCIs encounter in extending their services.

#### **6.2 Farmers' Perception**

The majority of the farmers in the sample appreciated the services of MCIs located in their areas, which serve them in terms of satisfying their credit requirements, although their full requirement has not been met due to lack of funds. So they like to extend their support for the development of the banks. For example, many of the MCIs operating in Track 5 in Rajangana (the Death Donation/Welfare Societies) have decided to charge a very high rate as credit interest (60 percent per annum), without considering the possibility of giving credit at very low interest rates, in order to improve the level of their funds. All the members have given their consent for this decision.

The majority of the farmers in the sample have expressed their dissatisfaction about the amount of credit given by many of the MCIs, which are not sufficient for other activities other than purchasing major inputs such as fertilizer and chemicals. Other activities are preparation of lands, harvesting and threshing which require a substantial amount of money, for which farmers require credit.

The farmers are not satisfied with the procedures of some MCIs, such as the Govijana Bank, which takes a longer period and in some occasions fail to procure loans. For example, to benefit from the Govijana Bank, the farmers have to join an organization with at least 50 members, but in some farmer organizations under small tanks, there are fewer of farmers, on such occasions they cannot join the Govijana Bank.

#### **6.3 Institutional Issues**

Lack of funds is one of the major issues, faced by most of the MCIs. The demand for credit is enormous. Other than obtaining inputs, the farmers need credit for other activities such as land preparation and harvesting etc. They also need to obtain credit to stock the harvest until a better price can be obtained (until the price goes up). The study revealed that there is a demand for credit for other activities related to agriculture, such as, for rearing livestock and constructing of agro-wells. At present, except the Samurdhi Bank, Sarvodaya and Sanasa, other MCIs do not satisfy such credit requirements of the farmers.

Recovery of credit, given by the MCIs at the field level by obtaining the required funds from their mother organizations/affiliated bodies is another issue. Credit organizations like SANASA, Sarvodaya and Govijana Bank satisfy the credit requirements of the farmers by obtaining funds from outside. Some times, the people are not concerned about those outside funds as they are more concerned about their private and group savings. Thus, they hesitate to repay credit obtained from those outside funds.

Because of the above reasons, on certain occasions, some MCIs have completely collapsed. One example is the Sarvodaya Society in Track 12 in Rajanganaya. At the end of the 1990s this was a very strong credit society. But, by settling large amounts of credit obtained from outside funds, it has gone bankrupt and still has not regained the normal condition. This has also been the condition regarding the repayment of credit given by the Govijana Bank. Some of the farmers in the Farmer Organizations, under small tanks in Medawewa-Aliyawetunawewa have not paid the credit given by the Govijana Bank. They have considered those as government money.

Inefficient operation of some field level organizations like Farmer Organizations in Medawewa-Aliyawetunawewa has become a problem to promote and expand their function as a credit supplier. The inefficiency of the office bearers as well as the negative attitudes of their members and other people in some villages has been the reasons for this.

Low income of the people has been another issue. If the income earning activities of people do not generate an income sufficient to save, it does not provide a better environment to develop MCIs. In the field survey, the research team identified how some MCIs have developed to different levels, under diverse socio-economic environments. For example, the Angamuwa Samurdhi Bank showed a high progress in terms of its financial capital, credit delivery as well as recoveries due to its location near the Rajangana scheme, which is comparatively a prosperous one. But, the Ganewalpola Samurdhi Bank indicated a regression because it is located in an area where high land cultivation under rain fed conditions is predominant. Here the farmers' income is very low and subject to risk.

So the low recoveries of credit lead to its downfall. There may be contradictory experiences in some areas and outside the country because some times we learn that MCIs have been successful in the promotion of savings and credit among low-income families. This is possible under well organized and well-managed MCIs operated perhaps under special development programmes led from outside.

Similarly the fluctuation of the prices of major crops such as paddy has been a major issue for the continuity and the sustainability of the MCIs. During the past three-year period, the paddy prices showed a downward trend and on some occasions there was a very slow movement of products in the local market due to the heavy imports as well as bumper harvests. This became a severe problem for all the credit institutions regarding recoveries.

## *Chapter Seven*

# **YAYA DEMONSTRATION PROGRAMME AND SUPPLY OF CREDIT UNDER IT**

### **7.1 Introduction**

This chapter examines the achievements and failures of the credit component of the “Yaya Demonstration Programme” of the Department of Agriculture. Under this, special attention is paid to examine the way the programme is organized, benefits of the programme to the farmers, impact of it on productivity, attitudes of the farmers towards the programme, reasons for the failure of its original form and the benefits and weaknesses of its operation under recent changes which comes under the “Integrated Yaya Demonstration Programme”.

### **7.2 “Yaya Demonstration” Programme**

The major objective of the “Yaya Demonstration Programme” of the Dept. of Agriculture which was initiated in 1996/97 *maha* Cultivation season is to increase paddy productivity upto 120-200 bushels per acre and decrease the cost of production.

The implementation strategy of this programme includes, allowing a group of farmers in a *Yaya* who cultivate paddy with a permanent supply of water, cultivate by application of new methods of farming and obtain benefits in organizing as a group, such as obtaining inputs on a credit basis especially unmixed fertilizer and also involving them in group marketing.

The new methods of farming introduced under the *Yaya* Demonstration Programme are as follows;

- I. Cultivation within the season.
- II. Better preparation of soil (prepare to the recommended level of depth).
- III. Use of advanced & recommended seeds.
- IV. Use of organic fertilizer such as straw leaves, cow-dung, chick-dung.
- V. Application of unmixed fertilizer according to the recommendations.
- VI. Prevention of weeds
- VII. Integrated pest management
- VIII. Use of post-harvest technologies

In implementing the programme, the services of all officers involved in the development of paddy farming at grassroot level are obtained. Under this, the Als plays a leading role in addition to providing technical support including giving instructions and training to the farmers.

The *Yaya* Demonstration Programme initiated in the Rajangana scheme was expanded into other areas later. By 1999 as much as 1700 *Yaya* Demonstrations had been held and 37,000 farmers have participated in them.

### **7.3 Supply of Fertilizer on Credit**

The *Yaya* Demonstration Programme became more popular as it took action to supply unmixed fertilizer (Urea, Triple phosphate and Mureate of potash) required by all the farmers in the area, when necessary on a credit basis. The first step of that process was to estimate the necessary amount by consulting the farmer organizations in the area and the next step was to make a requisition to the Lanka Fertilizer Company through the Assistant Director of Agriculture (Inter Provincial).

The fertilizer was given on a credit basis at 16 percent interest per year. The farmers were given four and a half a months time period to repay. They were not penalized for taking more time (about 5-6 months) to repay the loans. During the first three seasons, the Fertilizer Company transported them free of charge to the farmer organizations. In latter seasons the farmer organizations undertook the transportation of them and charged each farmer for this service. The recovery was done through the farmer organizations. The farmers are advised to repay the money to the Chairman of their farmer organization before a particular date.

The above programme had been operating for a number of years. Especially in Rajangana scheme there had been a 100 per cent recovery rate at the beginning, but a few years later the recovery rate had become low due to a number of factors. Among them the major reason was a lull in the paddy market during the years after 1998. The bumper harvest during that year and following years and the rice imports, greatly reduced the farm gate price of paddy. Another reason was the misappropriation of repaid money of the farmers by the farmer organization's Chairmen. One example from the Right Bank of the Rajangana scheme has been that the Chairman of the farmer organizations under Track 12 and Track 14 have misappropriated a sum of Rs. 15,000 and Rs. 12,000 respectively from the repayments of the loans obtained in *Maha* 1999/2000. However, due to the commitment and the trust of the Als in Rajangana the recovery rate of this programme has been very satisfactory, over 95 per cent, compared with other areas of the country. In contrast, in Moneragala and Polonnaruwa Districts the recovery rate has been very poor. Since *Maha* 1999/2000 Lanka Fertilizer Company has refused to provide fertilizer for this purpose.

During 2000/2001 *Maha* cultivation season, the Als in Rajangana scheme have initiated their own strategies to continue the programme of supplying fertilizer on a credit basis. One example was establishing a fertilizer fund under the farmer organization in Track 5. Rs. 500/- was collected from all the members for this. The fund developed to Rs. 53,000/-. This money and some other money obtained from farmer organizations have been utilized by the Al to bring fertilizer as in the past.

Since 2001 *yala* cultivation season, the Integrated *Yaya* Demonstration Programme has been functioning. Under this, the Department of Agriculture, thorough AIs provides only technical services (trainings and instructions) while the Department of Agrarian Services provides supplies (credit, fertilizer, chemicals, seeds etc.) through the DOs. Accordingly, the Govijana Kendrayas have provided credit, for a limited number of farmers selected for the *Yaya* Demonstration Programme, from the funds of the Govijana Bank. Under this, fertilizer is also supplied on a credit basis as in the past. Here, both *Yaya* Demonstration Programme and the Agricultural Credit Programme of the Govijana Bank are linked together.

#### **7.4 The Attitudes of the Farmers about the *Yaya* Demonstration Programme and Its Impact**

Both farmers as well as the officers, appreciated the supply of credit for paddy production, especially for fertilizer under the *Yaya* Demonstration Programme due to the following reasons:

- I. As the fertilizer is supplied before cultivation, the farmer can apply it in time without any type of delay.
- II. As instructions are available at hand, the application of fertilizer can be done according to that. The application of the recommended amount of fertilizer would result in increasing the productivity. Under this programme, many farmers in the Rajangana scheme have been able to obtain a better harvest between 120 to 130 bushels per acre. Some of the best farmers were able to obtain upto 200 bushels per acre.
- III. According to the farmers, obtaining fertilizer under the *Yaya* Demonstration Programme is easier and it is not necessary to spend more time on that. So they can save money as well as time.
- IV. Under this programme, the prices of fertilizers are reasonable (discounts are also given) and it is not necessary to pay additional amounts (except the interest rate and the transport cost) for this purpose.
- V. According to the farmers under this programme, the farmers are not bound to any person or institution, so that he can freely sell his produce to any one at any price, and if he wants he could stock it until the prices goes up.
- VI. The linking of *Yaya* Demonstration Programme and the Govijana Bank Credit Programme together under the Integrated *Yaya* Demonstration Programme seems to be a wise decision theoretically. But the AIs' are not happy about this decision because some delays may occur in providing of credit/fertilizer under the Govijana Bank credit scheme. Hence, that unlike the early programmes the AIs' cannot direct the farmers to apply fertilizer on specific dates. This would result in low outputs. Instead of supplying fertilizer after cultivation by the

Govijana Bank, supplying fertilizer before the cultivation as done earlier under the *Yaya* Demonstration Programme is more appreciated by them.

- VII. As seen by the sample farmers, some other benefits of the *Yaya* Demonstration Programme are developing a close relationship between the farmers and Als and the cultivation of the same variety of paddy in the entire *Yaya*.

### **7.5 Problems and Weaknesses of the Programme**

According to this study, all the farmers in the sample did not have a clear idea about the *Yaya* Demonstration Programme. At least about one third of them did not know about this programme. So, attention should be paid on, lack of awareness on the programme.

Some farmers are not very happy about the services rendered by the Als and the practical knowledge of the Agricultural Research and Production Assistants who are available at any time to give advise to the farmers.

Unlike in the past, under the Integrated *Yaya* Demonstration Programme, it has become impossible to supply fertilizer for a large number of farmers, including others who are not selected for the *Yaya* Production Programme, but who like to obtain fertilizer on a credit basis. The reason is, limited funds available at the Govijana Banks, which are involved in providing credit for the farmers under the Integrated *Yaya* Demonstration Programme. This has discouraged the penetration of benefits of this programme to more farmers.

## *Chapter Eight*

### **FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **8.1 Introduction**

The purpose of this study was, to examine the success of Micro-credit Systems in meeting the problems, regarding agricultural credit of the smallholder farmers. The study objectives were to examine the achievement levels and reasons for the failure of past government sponsored institutional credit programmes and capacity of the MCIs\* in fulfilling credit needs of the smallholder farmers by overcoming credit issues and increasing their accessibility to the credit systems. Further, attempts have been made to investigate the problems those institutions faced in expanding their services, and to make policy recommendations suitable for the future of the smallholder farming sector credit.

#### **8.2 The Findings**

The literature review revealed that in order to develop the smallholder-farming sector during the last five decades, the government implemented a number of credit schemes, one after another with some changes to correct it. But, the result has been the total failure of the whole cultivation credit programme, both at the demand as well as the supply side of credit. The symptoms of this failure is indicated by the decline of the amount of credit disbursed, the number of farmers who obtained loans, number of farmers who repaid and the number of farmers qualified to obtain loans.

One of the major issues presented by the demand side was that, the poor farmers have no proper and easy access to the formal credit institutions. This appears to be linked with a number of other issues such as their inability to offer the required collateral, bureaucratic procedures and the delay taken to obtain loans and high interest rates including the high transaction cost etc.

Suppliers were charging a high interest and following strict rules due to factors such as high transaction cost for lending small loans to the smallholder farming sector and the poor repayment level and high defaults of the credit given to them. This high incidence of defaults are caused not only due to economic reasons such as low productivity and low income, but also by social factors such as wrong attitudes about government sponsored subsidized credit.

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\* MCIs - In this study "MCIs" refers to small scale financial institutions. Their characteristics being financial intermediation (mobilizing savings and giving credit for income generation and self employments), and social intermediation (involving in group formation and developing self-confidence) with much involvement of the people as their owners, decision makers and managers.

The field survey of the sample farmers revealed the latest situation of agricultural credit in the study areas. Accordingly, the low return from paddy cultivation has encouraged almost all the farmers to find the capital from outside sources to invest in the next cultivation season. In addition, the use of the earnings from other income sources, which are not attractive and loans taken from some other sources except farming has become more prominent.

Among the loans taken from sources outside the farm unit, pawning of jewellery, and mortgaging of lands are prominent. Among these, specially pawning of jewellery to financial institutions and individuals has become a popular phenomenon. It has become an easy way for smallholders to obtain money, who cannot satisfy the different collateral requirements of the banks. The other reason for the popularity of this has been the expansion of financial institutions, which are involved in pawning activities, under the liberal economic policy. Mortgaging of lands under new arrangements, which are different to traditional ways of land mortgaging, has come into existence. Under the new system, the owner of the land cultivates it while paying a rent in kind to the person from whom money was obtained. This provides the opportunity for the landowners to be secretive about the mortgage of paddy land, which is considered as a symbol of a person's bankruptcy. Pawning is more prominent among loans obtained for consumption than for production purposes. However, these have to be considered as a working capital that supports the production process.

Regarding agricultural credit, the prevailing situation seems to be more complicated. In the farmer's terminology only borrowings done in cash are considered "credit" but not the borrowings done in "kind" and "services" which are common in the study areas. Hence, the borrowings done in these three ways have to be considered as three types of credit.

Taken as a whole, all types of non-institutional sources, of credit have become more prominent, followed by semi-institutional and institutional sources. The expansions of the role of paddy collectors and tractor owners who provide cash and services (ploughing) on a credit basis have become the major reason for the prominence of non-institutional sources. Resulting from the facilities of the open economy, both paddy collectors as well as tractor owners have emerged in the rural areas. Both of them compete with others to increase their profit. The paddy collectors provide cash loans with the purpose of obtaining farmers' produce. In more competitive areas these are interest free loans, a system that favors farmers. But, with regard to less competitive isolated locations, the paddy collectors charge an interest. Regarding tractor owners, they do the ploughing on a credit basis, which is interest free. When credit is obtained in kind, the same procedure can be observed. Concerning more isolated locations, the interest increases, the discounts given for inputs decrease or come to zero and the price paid for the farmers produce also may be lower than the market rate.

The study revealed a series of changes in the rural agricultural credit market. Among these are the expansion of certain types of credit such as paying in kind and services. Meanwhile, with the increasing role of paddy collectors and tractor owners, the role of

traditional moneylenders, friends and relatives have gradually diminished, and village societies such as Death Donation Societies and Welfare Societies have come into existence as prominent credit suppliers for agriculture. Along with these, other MCIs make a significant contribution in supplying agricultural credit. The expansion of their numbers and services has contributed to the recent increase of credit availability and accessibility of credit in the rural credit market.

In the study area, there are a large number of MCIs belonging to different categories; some are community based organizations, established with a different vision but involved in savings mobilization and granting credit: some are area organizations sponsored by a government institution or an NGO.

These MCIs have been able to successfully overcome most of the credit issues of the smallholder-farming sector. The collateral problem has been solved by encouraging individual members to create their own assets (at institutional level) in form of savings and shares. The personal guarantee system and the associated pressure of an individual, a small group and the whole organization also function as a better method for collaterals. Some MCIs have operated their own and innovative methods in this regard such as holding the Swarnaboomi deed or a part of the land or the future benefits and the grants that members are entitled.

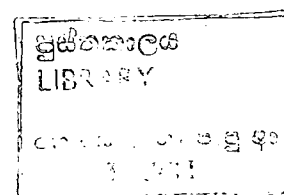
The issue of cumbersome procedures and the long delays has been overcome easily. The owners as well as the managers of the MCIs are their members. The office bearers work on a voluntary basis and try to serve the society. They always attempt to release credit as early as possible by following flexible rules.

The high credit cost, which consists of high interest rates and high transaction costs borne by the credit takers have been reduced under MCIs. As the credit cost of many MCIs considered under this study are very low, they can give credit at low interest rates, though at present those have been fixed at fairly high rates in order to raise their funds.

The issue of poor repayment and high default of credit has been reduced through individual, group and community pressure. In addition, some of those institutions have been encouraged by government officers or their own office bearers to repay.

As most of the credit issues of the smallholder-farming sector have been met successfully, the MCIs have been able to extend their services to more farmers. The farmers credit requirements also have been fulfilled by them to a certain extent.

Generally the farmers' attitudes about the MCIs are positive and they appreciate the services supplied by them. However, they expressed their dissatisfaction about the amount of credit given, which is not enough to do anything other than purchasing of inputs.



Among the issues faced by the MCIs in expanding their activities, lack of funds, problems faced in recovering funds due to wrong attitudes towards credit from outside funds, inefficient and poor level operation of the grass root level organizations, low returns from agriculture and low income of the people.

Another credit programme, which has been prevailing in the study area and examined under this study, is the credit component of the *Yaya* Demonstration Programme. The credit component of that programme was implemented under two stages. In the first stage, fertilizer was supplied by AIs on a credit basis directly from the Lanka Fertilizer Company. Under the second stage, the selected farmers were provided with loans from Govi Jana Bank. The way it was operated under the first stage was highly appreciated by the farmers as well as officers. It provided the opportunity for the farmers to apply fertilizer at the correct time with available instructions of the AIs. Linking of both *Yaya* Demonstration Programme and GJB seems to have been theoretically correct, but it has created some issues as well.

### **8.3 Conclusion**

The study findings indicate that the MCIs fill the vacuum of the non-existence of a suitable institutional mechanism to satisfy credit requirements of the smallholder farmers for a long period. The institutional structure and the operational system of these are able to meet the issues faced under the conventional credit programmes. Hence, they can easily provide access to poor farmers. The MCIs have a great potential to satisfy the credit requirements of the smallholder farmers and provide a solution to the issues faced by them.

### **8.4 Recommendations**

The MCIs have shown their capability for the operation of sustainable credit systems. Under the current process of liberalization, globalization and structural adjustment, the small farmers have to examine their own farming systems to find out which are sustainable. In line with this, the sustainable credit systems of their own which provide credit to match their requirements are essential. Accordingly, the following general and specific recommendations are made to promote MCIs.

#### **(A) The General Recommendations**

- I. The government should pay more attention to the MCIs as an appropriate mechanism to satisfy credit needs of poor farmers.
- II. At the initial stage, the government should support the development of MCIs through a communication strategy to change attitudes of the people about them and, by training field officers to train farmers, provide necessary facilities including infrastructure facilities such as office space and other equipment and the stipulation of necessary policies. When the MCIs are expanded, their

management will be in a much better position so that they can be allowed to maintain their sustainability without resorting to government services.

- III.. The services of different types of MCIs initiated by the government institutions can be further expanded by avoiding some weaknesses and mistakes committed by them.
- IV. The government can further improve the services of MCIs through appreciation of their role by providing rewards, scholarships and study tours.
- V. The government should refrain from writing off credit, which has led to damage the credit culture and create misunderstandings about credit among the general public.
- VI. More and more NGOs should be promoted to involve themselves in this sector to promote and expand MCIs.

**(B) Specific Recommendations**

- I. The eligible number of farmers to join the GJB from a farmer organization should be reduced from 50 to some acceptable level in order to facilitate more small organizations to benefit from it.
- II. The opportunity of obtaining the benefits of Samurdhi Bank should be opened to other small farmers, who are not entitled for Samurdhi.
- III. The credit programme associated with the *Yaya* Demonstration Programme should be reorganized; as earlier, fertilizer should be rearranged from private companies or institutions on a credit basis, thus, by supplying fertilizer before cultivation, more farmers could benefit. The DOs or both by combination of DOs and AIs can handle this credit programme.
- IV. Like the credit Programme under the GJB, the one under the *Yaya* Demonstration Programme also should be linked with the farmer organizations, and they should be given full responsibility to recover the loans.

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## Annex 1 : Information About Micro-Credit Systems

**Table : A – 1 Randenigama SANASA Society**

1. Location	:	Track 5, Randenigama, Rajanganaya Right Bank																														
2. Name of the Society	:	SANASA																														
3. No. of Members/account holders	:	<b>25</b>																														
4. Financial Assets	:																															
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Shares/Savings/Fees</th> <th style="width: 20%;">Value (Rs.)</th> <th style="width: 30%;">Interest per annum (%)</th> </tr> </thead> <tbody> <tr> <td>1. Shares of Members</td> <td style="text-align: right;">81,627.00</td> <td>Paying profits</td> </tr> <tr> <td>2. Compulsory Savings</td> <td style="text-align: right;">83,000.00</td> <td>12 %</td> </tr> <tr> <td>3. Bakmaha Account</td> <td style="text-align: right;">61,000.00</td> <td>14.5 %</td> </tr> </tbody> </table>			Shares/Savings/Fees	Value (Rs.)	Interest per annum (%)	1. Shares of Members	81,627.00	Paying profits	2. Compulsory Savings	83,000.00	12 %	3. Bakmaha Account	61,000.00	14.5 %																		
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2. Compulsory Savings	83,000.00	12 %																														
3. Bakmaha Account	61,000.00	14.5 %																														
5. Total Value of Financial Capital	:	<b>225,000.00</b>																														
6. Credit Information	:																															
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2" style="width: 20%;">Type of Loans given</th> <th rowspan="2" style="width: 10%;">Interest per annum</th> <th rowspan="2" style="width: 10%;">Maximum Obtainable (Rs.)</th> <th rowspan="2" style="width: 10%;">Eligibility Criteria And Rules</th> <th colspan="2" style="width: 20%;">Amount Given within year 2001</th> <th rowspan="2" style="width: 10%;">Repayment Rate within year 2001</th> </tr> <tr> <th style="width: 5%;">No. of Farmers</th> <th style="width: 15%;">Amount (Rs.)</th> </tr> </thead> <tbody> <tr> <td>1. Agricultural Loans</td> <td>24 %</td> <td>25,000.00</td> <td>** (1 – 5)</td> <td style="text-align: center;">62</td> <td style="text-align: right;">669,000.00</td> <td>100 %</td> </tr> <tr> <td>2. Emergency Loans</td> <td>60 %</td> <td>1,000.00</td> <td>** (1 – 5)</td> <td style="text-align: center;">49</td> <td style="text-align: right;">48,500.00</td> <td>100 %</td> </tr> <tr> <td>3. Housing &amp; Self Employment Loans</td> <td>24 %</td> <td>10,000.00</td> <td>** (1 – 5)</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> <td></td> </tr> </tbody> </table>			Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001		Repayment Rate within year 2001	No. of Farmers	Amount (Rs.)	1. Agricultural Loans	24 %	25,000.00	** (1 – 5)	62	669,000.00	100 %	2. Emergency Loans	60 %	1,000.00	** (1 – 5)	49	48,500.00	100 %	3. Housing & Self Employment Loans	24 %	10,000.00	** (1 – 5)	-	-	
Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)					Eligibility Criteria And Rules	Amount Given within year 2001		Repayment Rate within year 2001																						
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3. Housing & Self Employment Loans	24 %	10,000.00	** (1 – 5)	-	-																											
<p>** 1. Be a share holder                  2. Should hold shares and savings equal to 15 % and 20 % of the loan                  3. Attending meetings regularly                  4. Should have developed confidence about loan takers                  5. Signature of two members as security</p>																																

Source : HARTI Survey on MCIs in 2001

**Table : A – 2 The SANASA Society in Track 5**

1. Location : Track 5, Rajanganaya Right Bank
2. Name of the Society : SANASA
3. No. of Members/account holders : 50
4. Financial Assets :

Shares/Savings/Fees	Value (Rs.)	Interest per annum (%)
1. Shares of Members	99,848.00	Paying profits
2. Compulsory Savings	108,495.00	12 %
3. General Savings	53,581.00	10 %
4. Bakmaha Account	30,435.00	14.5 %
5. Fixed Deposits	10,976.00	14 %
6. Children's Savings	85,000.00	14 %
7. Non-member's Savings	25,793.00	14 %

5. Total Value of Financial Capital : **414,128.00**

6. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001		Repay ment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1 Agricultural Loans	24 %	20,000.00	** (1 – 5)	56	1,009,800.00	95 %
2. Emergency Loans	36 %	1,500.00	** (1 – 5)	-	97,600.00	100 %
3. Self Employ-ment Loans	24 %	20,000.00	** (1 – 5)	-	80,870.00	90 %

- \*\* 1. Be a share holder  
 2. Should hold shares and savings equal to 15 % and 20 % of the loan  
 3. Attending meetings regularly  
 4. Should have developed confidence about them  
 5. Signature of two members as security

Source: HARTI Survey on MCIs in 2001

**Table : A – 3 SARVODAYA Society in Track 12**

1. Location : Track 12, Rajanganaya Right Bank
2. Name of the Society : Sarvodaya
3. No. of Members/account holders : 56
4. Financial Assets :

Shares/Savings/Fees	Value (Rs.)	Interest per annum (%)
1. Membership fees per year	24.00	
2. Life membership	240.00	
3. Compulsory Savings (Based on the saving of Rs. 50 per month)	34,450.00	
4. General Savings	90,262.00	
5. Millennium Savings	29,900.00	
6. Ranthilina Savings	25,700.00	

5. Total Value of Financial Capital : 207,000.00

6. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Emergency Loans	60 %	1,000.00	**	55	40,000.00	95 %
2. Short - term Loans	36 %	5,000.00	##	36	220,000.00	100 %
3. Self Employment Loans	24 %	50,000.00	\$\$	14	150,000.00	100 %

\*\* 1. 3 months savings under compulsory savings  
2. Two group members as guarantors

## 1. 3 months savings under compulsory savings

\$\$ 1. Savings equal to 10 % of the amount requested  
2. Recommendation of all 7 members in his small group

Source: HARTI Survey on MCIs in 2001

**Table : A – 4 Tissapura Farmer Organization**

1. Location : Track 5, Rajanganaya Right Bank
2. Name of the Society : Tissapura Farmer Organization
3. No. of Members/account holders : **287**
4. Financial Assets :

Shares/Savings/Fees	Value (Rs.)	Interest per annum (%)
1. Savings	164,000.00	
2. Account for Fertilizer	40,000.00	

5. Total Value of Financial Capital : **164,000.00**

6. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001 (2000/01 maha & 2001 yala)		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
<b>1. Cultivation Loans :</b>						
<b>1.1 Loans given from Farmer Organization Money</b>			*	80	140,000.00	100 %
<b>1.2 Credit arranged from Govijana Bank</b>	10.5 %	5,000.00	**	22	126,665.00	100 %
<b>1.3 Credit arranged under Yaya Production Programme</b>				67	140,000.00	100 %

\* 1. Being a member

2. Should have paid back previous loans

\*\* Same rules applicable to obtain loans from Govijana Bank are applied here

Source: HARTI Survey on MCIs in 2001

**Table : A – 5 BOP 715/2, Lift Irrigation System Farmer Organization**

1. Location : Track 5, Rajanganaya Right Bank
2. Name of the Society : BOP 715/2, Lift Irrigation System Farmer Organization
3. No. of Members/account holders : 110
4. Total Value of Financial Capital : 380,000.00
5. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Cultivation Loans	42 %	5,000.00	*	23	79,000.00	98 %
2. Credit arranged from Govijana Bank	10.5 %	5,000.00	**	27	80,000.00	100 %

\* 1. Be a member

2. Should have paid duly payments for operating the pump house (payments for watering)

3. Be a land owner or farmer

4. Production of two members as guarantors

\*\* Same rules applicable to obtain loans from Govijana Bank are applied here

Source : HARTI Survey on MCIs in 2001

**Table : A – 6 Farmer Organization in Track 12**

1. Location : Track 12, Rajanganaya Right Bank  
 2. Name of the Society : Track 12 Farmer Organization  
 3. No. of Members/account holders : 176  
 4. Total Value of Financial Capital : 3,749.00  
 5. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001 (2000/01 <i>maha</i> & 2001 <i>yala</i> )		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Credit arranged from Govijana Bank	10.5 %	5,000.00	**	43	191,358.00	100 %

**\*\* Same rules applicable to obtain loans from Govijana Bank are applied here**

Source : HARTI Survey on MCIs in 2001

**Table : A – 7 Ekamuthu Govi Sanvidanaya in Kaluebbe**

1. Location : Kaluebbe under Keeriyagaswewa
2. Name of the Society : Ekamuthu Govi Sanvidanaya
3. No. of Members/account holders : 70
4. Total Value of Financial Capital : 32,000.00
5. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001 (2000/01 maha)		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Credit arranged from Govijana Bank	10.5 %	5,000.00	**	32	91,608.00	100 %

\*\* Same rules applicable to obtain loans from Govijana Bank are applied here

Source : HARTI Survey on MCIs in 2001

**Table : A – 8 Aliyawetunawewa Govi Sanvidanaya**

1. Location : Aliyawetunawewa under Medawewa
2. Name of the Society : Aliyawetunawewa Govi Sanvidanaya
3. No. of Members/account holders : **59**
4. Total Value of Financial Capital : **12,190.00**
5. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001 (2000/01 maha)		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Credit arranged from Govijana Bank	10.5 %	5,000.00	**	11	18,593.00	100 %

**\*\* Same rules applicable to obtain loans from the Govijana Bank are applied here**

Source : HARTI Survey on MCIs in 2001

**Table : A – 9 Medawewa Govi Sanvidanaya**

1. Location : Medawewa
2. Name of the Society : Medawewa Govi Sanvidanaya
3. No. of Members/account holders : 36
4. Total Value of Financial Capital : 19,300.00
5. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001 (2000/01 maha)		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Credit arranged from Govijana Bank	10.5 %	5,000.00	**	14	30,291.00	100 %

*\*\* Same rules applicable to obtain loans from the Govijana Bank are applied here*

Source : HARTI Survey on MCIs in 2001

**Table : A – 10 Tissapura Annoniyadara Samithiya**

1. Location : Track 5, Rajanganaya Right Bank  
 2. Name of the Society : Tissapura Annoniyadara Samithiya  
 3. No. of Members/account holders : 237  
 4. Financial Assets :

Shares/Savings/Fees	Value (Rs.)	Interest per annum (%)
1. Monthly membership fees	20.00	
2. Special fees per funeral basis	30.00	

5. Total Value of Financial Capital : 300,000.00

6. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Emergency Loans	60 %	1000.00	*	39	78,000.00	100 %

The donation per funeral: Rs. 10,000.00

\* Be a member of the Society

Source : HARTI Survey on MCIs in 2001

**Table : A – 11 Sadasarana Welfare Society in Track 5**

1. Location : Track 5, Rajanganaya Right Bank  
 2. Name of the Society : Sadasarana Welfare Society  
 3. No. of Members/account holders : **250**  
 4. Financial Assets :

Shares/Savings/Fees	Value (Rs.)	Interest per annum (%)
1. Monthly membership fees	10.00	
2. Special fees per funeral basis	30.00	

5. Total Value of Financial Capital : **200,000.00**

6. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001		Repay ment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Emergency Loans	60 %	2000.00	*	49	173,200.00	99 %
2. Loan for Weddings	60 %	5000.00	*	04	30,000.00	100 %
3. Distress Loans	free	500.00	*	12	6,000.00	99 %

The donation per funeral: Rs. 10000.00

\* *Be a member of the Society*

Source : HARTI Survey on MCIs in 2001

Table : A – 12 Death Donation Society under channel one in Track 12

1. Location : Track 12, Rajanganaya Right Bank  
 2. Name of the Society : Death Donation Society  
 3. No. of Members/account holders : **159**  
 4. Financial Assets :

Shares/Savings/Fees	Value (Rs.)	Interest per annum (%)
1. Initial payment	250.00	
2. Monthly membership fees	15.00	

5. Total Value of Financial Capital : **222,668.00**

6. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Cultivation Loans	36 %	5,000.00	*	62	310,000.00	100 %

The donation per funeral : Rs. 10000.00

- \* 1. *Should be a landowner*  
 2. *Two members should sign for the bond*  
 3. *The amount defaulted will be deducted with the interest from funeral payments*

Source : HARTI Survey on MCIs in 2001

**Table : A – 13 Eksith Avamangalyadara Samithiya under channel two in Track 12**

1. Location : Track 12, Rajanganaya Right Bank  
 2. Name of the Society : Eksith Avamangalyadara Samithiya  
 3. No. of Members/account holders : 72  
 4. Financial Assets :

Shares/Savings/Fees	Value (Rs.)	Interest per Annum (%)
1. Monthly membership fees	20.00	

5. Total Value of Financial Capital : 325,000.00

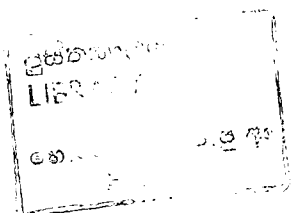
6. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Cultivation Loans	36 %	10,000.00	** (1 to 6)	78	304,000.00	100 %

Donation for a funeral of a child is Rs. 4000/-  
 Donation for a funeral of a adult is Rs. 8000/-

- \*\* 1. Be a member.  
 2. Rs. 5000/- can be obtained by keeping a Jayaboomi deed as collateral.  
 3. Another Rs. 5000/- can be obtained by providing two members as guarantors.  
 4. The loan should be repaid within 6 months.  
 5. If it is not repaid within 6 months the membership will be cancelled.  
 6. If it is not repaid within 12 months legal action will be taken.

Source : HARTI Survey on MCIs in 2001



**Table : A – 14 Eksath Subasadaka Sangamaya in Aliyawetunawewa**

1. Location	:	Aliyawetunawewa in Kekirawa																				
2. Name of the Society	:	Eksath Subasadaka Sangamaya																				
3. No. of Members/account holders	:	<b>52</b>																				
4. Financial Assets	:																					
<table border="1"> <thead> <tr> <th>Shares/Savings/Fees</th> <th>Value (Rs.)</th> <th>Interest per Annum (%)</th> </tr> </thead> <tbody> <tr> <td>1. Monthly membership fees</td> <td>25.00</td> <td></td> </tr> </tbody> </table>			Shares/Savings/Fees	Value (Rs.)	Interest per Annum (%)	1. Monthly membership fees	25.00															
Shares/Savings/Fees	Value (Rs.)	Interest per Annum (%)																				
1. Monthly membership fees	25.00																					
5. Total Value of Financial Capital	:	<b>30,000.00</b>																				
6. Credit Information	:																					
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Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001		Repayment Rate within year 2001																
				No. of Farmers	Amount (Rs.)																	
1. Emergency Loans	120 %	1,000.00	**	18	18,000.00	100 %																
Donation for a funeral Rs. 8000/-																						
** <i>Be a member.</i>																						

Source : HARTI Survey on MCIs in 2001

**Table : A – 15 Rajanganaya Govijana Bank**

1. Location	:	Rajanganaya Right Bank																				
2. Name of the Society	:	Rajanganaya Govijana Bank																				
3. No. of Members/account holders	:	1,648																				
4. Financial Assets	:																					
<table border="1"> <thead> <tr> <th>Shares/Savings/Fees</th> <th>Value (Rs.)</th> <th>Interest per annum (%)</th> </tr> </thead> <tbody> <tr> <td>1. Shares of Members</td> <td>170,800.00</td> <td>9 %</td> </tr> <tr> <td>2. Savings of Members</td> <td>368,106.62</td> <td>9 %</td> </tr> <tr> <td>3. Totals of Interests, Fines and Service Charges</td> <td>231,296.39</td> <td></td> </tr> </tbody> </table>			Shares/Savings/Fees	Value (Rs.)	Interest per annum (%)	1. Shares of Members	170,800.00	9 %	2. Savings of Members	368,106.62	9 %	3. Totals of Interests, Fines and Service Charges	231,296.39									
Shares/Savings/Fees	Value (Rs.)	Interest per annum (%)																				
1. Shares of Members	170,800.00	9 %																				
2. Savings of Members	368,106.62	9 %																				
3. Totals of Interests, Fines and Service Charges	231,296.39																					
5. Total Value of Financial Capital	:	<b>770,203.00</b>																				
6. Credit Information	:																					
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				No. of Farmers	Amount (Rs.)																	
1. Agricultural Loans	10.5%	5,000.00 (per ace)	** (1 – 4)	555	2,319,322.00	97.2 %																
<p>** 1. <i>The Farmer Organization to which a particular member belongs should have Purchased shares of the bank to the value of Rs.5000/- and that money should be at least From 50 farmers.</i></p> <p>2. <i>There should be individual savings in the bank amounting to the value of 10 % of the loan obtained.</i></p> <p>3. <i>The loans taken earlier should be settled.</i></p> <p>4. <i>The guarantee of two members who have paid their early loans.</i></p>																						

Source: HARTI Survey on MCIs in 2001

**Table : A – 16 Kekirawa Govijana Bank**

1. Location : Kekirawa  
 2. Name of the Society : Kekirawa Govijana Bank  
 3. No. of Members/account holders : 665  
 4. Financial Assets :

Shares/Savings/Fees	Value (Rs.)	Interest per annum (%)
1. Shares of Members	115,050.00	9 %
2. Savings of Members	69,540.00	9 %
3. Totals of Interests, Fines and Service Charges (Capital)	700,000.00	

5. Total Value of Financial Capital : **884,590.00**

6. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Agricultural Loans	10.5 %	5,000.00 (per ace)	** (1 – 4)	154	590,632.25	92 %

- \*\* 1. *The Farmer Organization to which a particular member belongs should have Purchased shares of the bank to the value of Rs.5000/- and that money should be at least From 50 farmers.*
5. *There should be individual savings in the bank amounting to the value of 10 % of the loan obtained.*
6. *The loans taken earlier should be settled.*
7. *The guarantee of two members who have paid their previous loans.*

Source : HARTI Survey on MCIs in 2001

**Table : A – 17 Rajanganaya 5<sup>th</sup> Mile Post Samurdhi Banku Sangamaya**

1. Location	:	5 <sup>th</sup> Mile Post, (Track 5) Rajanganaya Right Bank				
2. Name of the Society	:	Samurdhi Banku Sangamaya				
3. No. of Members/account holders	:	1,400				
4. Financial Assets	:					
		Shares/Savings/Fees	Value (Rs.)	Interest per Annum (%)		
		1. Value of Shares	1,259,901.00	6 %		
		2. Normal Savings (Monthly savings of Rs.100/- from each family)	3,800,000.00	9 %		
		3. Children's Savings	117,000.00	12 %		
		4. Diriyamatha Savings	242,000.00	12 %		
		5. Group Savings	654,000.00	9 %		
		6. Non – Member's Savings	100,000.00	9 %		
5. Total Value of Financial Capital	:	<b>6,172,901.00</b>				
6. Credit Information	:					
Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given as at year 2001 (From March 1998)		Repay ment Rate by the end of 2001
				No. of Farmers	Amount (Rs.)	
1. Agricultural Loans	24 %	25,000.00	** (1 to 6)	1525	4,729,500.00	120 %
2. Self Employ ment Loans	24 %	25,000.00	** (1 to 5 & 7)	538	3,946,000.00	110 %
3. Consumption Loans	18 %	10,000.00	** ((1 to 5 & 8)	-	-	-
4. Distress Loans	24 %	500.00	** ((1 to 5 & 9)	-	-	-
**						
1. Be a Samurdhi member						
2. Be a member of a 5 member group						
3. Hold shares to the value of 10 % of the loan						
4. Availability of his/her group savings equal to 25 % of the value of the loan						
5. Guarantee of all 5 members in his/her group						
6. Should be repaid within 6 months						
7. Should be repaid within 3 years						
8. Should be repaid within 3 months      9. Should be repaid within 1 month						

**Table : A – 18 Angamuwa, Samurdhi Banku Sangamaya**

1. Location : Track 12, Rajanganaya Right Bank  
 2. Name of the Society : Angamuwa Samurdhi Banku Sangamaya  
 3. No. of Members/account holders : 2,420

4. Financial Assets :

Shares/Savings/Fees	Value (Rs.)	Interest per Annum (%)
1. Shares of Members	2,095,057.00	6 %
2. Savings of Members	6,130,911.00	9 %
3. Savings of Non Members	150,966.00	
4. Diriyamatha Savings	172,429.50	12 %
5. Children Savings	142,149.75	12 %
6. Group Savings	816,588.50	9 %

5. Total Value of Financial Capital : **9,508,101.75**

6. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Agricultural Loans	24 %	50,000.00	** (1 to 6)	82	587,000.00	162 %
2. Self Employment	24 %	30,000.00	** (1 to 5 & 7)	110	1,295,000.00	104 %
3. Consumption Loans	18 %	2,000.00	** ((1 to 5 & 8)	2	15,000.00	150 %
4. Distress Loans	24 %	1,000.00	** ((1 to 5 & 9)	18	17,000.00	164 %
5. Fisheries Loans	24 %	10,000.00	** (1 to 6)	6	6,000.00	100 %

- \*\* 1. Be a Samurdhi member  
 2. Be a member of a 5 member group  
 3. Hold shares to the value of 10 % of the loan  
 4. Availability of his/her group savings equal to 25 % of the value of loan  
 5. Guarantee of all 5 members in his/her group  
 6. Should be repaid within 6 months  
 7. Should be repaid within 3 years  
 8. Should be repaid within 3 months      9. Should be repaid within 1 month

**Table : A – 19 Olombewa Samurdhi Banku Sangamaya**

1. Location : Olombewa under Medawewa  
Aliyawetunawewa
2. Name of the Society : Samurdhi Banku Sangamaya
3. No. of Members/account holders : 1,373

## 4. Financial Assets :

Shares/Savings/Fees	Value (Rs.)	Interest per Annum (%)
1. Shares of Members	932,995.00	6 %
2. Savings of Members	1,335,235.00	9 %
3. Savings of Non Members	95,450.00	
4. Diriyamatha Savings	53,242.00	12 %
5. Children Savings	92,389.00	12 %
6. Group Savings	760,695.50	9 %
7. Other Savings	8,191.00	

5. Total Value of Financial Capital : **3,278,197.50**

## 6. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Agricultural Loans	24 %	25,000.00	** (1 to 6)	205	1,341,500.00	202 %
2. Self Employment Loans	24 %	25,000.00	** (1 to 5 & 7)	80	549,000.00	135 %
3. Fisheries Loans	24 %	25,000.00	** (1 to 6)	4	25,000.00	158 %

- \*\* 1. Be a Samurdhi member  
2. Be a member of a 5 member group  
3. Hold shares to the value of 10 % of the loan  
4. Availability of his/her group savings equal to 25 % of the value of loan  
5. Guarantee of all 5 members in his/her group  
6. Should be repaid within 6 months  
7. Should be repaid within 3 years

**Table : A – 20 Ganewalpola Samurdhi Banku Sangamaya**

1. Location : Ganewalpola under Keeriyagaswewa  
 2. Name of the Society : Samurdhi Banku Sangamaya  
 3. No. of Members/account holders : 1,340

4. Financial Assets :

Shares/Savings/Fees	Value (Rs.)	Interest per annum (%)
1. Shares of Members	1,300,270.00	6 %
2. Savings of Members	453,608.00	9 %
3. Savings of Non Members	34,002.00	
4. Diriyamatha Savings	44,502.00	12 %
5. Children Savings	91,616.00	12 %
6. Group Savings	662,910.00	9 %

5. Total Value of Financial Capital : **2,586,908.00**

6. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Agricultural Loans	24 %	15000.00	** (1 to 6)	292	1,892,500.00	89.5 %
2. Self Employment Loans	24 %	25000.00	** (1 to 5 & 7)	191	1,370,000.00	102 %
3. Fisheries Loans	24 %	5000.00	** (1 to 6)	2	10,000.00	78 %

\*\* 1. Be a Samurdhi member

2. Be a member of a 5 member group

3. Hold shares to the value of 10 % of the loan

4. Availability of his/her group savings equal to 25 % of the value of loan

5. Guarantee of all 5 members in his/her group

6. Should be repaid within 6 months

7. Should be repaid within 3 years

Source : HARTI Survey on MCIs in 2001

**Table : A – 21 Rural Bank of the Saliyapura multipurpose Cooperative Society**

1. Location : Track 5, Rajanganaya Right Bank
2. Name of the Society : Rural Bank of the Saliyapura multipurpose Cooperative Society
3. No. of Members/account holders : **6,089**

4. Financial Assets :

Shares/Savings/Fees	Value (Rs.)	Interest per Annum (%)
1. Member's Savings	422,083.00	9 %
2. Non – Member's Savings	4,666,065.00	9 %
3. Children's Savings	863,362.00	10 %
4. Danayoga Savings	64,398.00	9 %
5. Fixed Deposits	564,949.00	14 %
6. Non-active accounts	205,768.00	

5. Total Value of Financial Capital : **6,786,625.00**

6. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Agricultural Loans	18 %	15,000.00	** (1 to 5)	13	130,000.00	
2. Housing Loans	21 %	25,000.00	** (3 to 5)	01	4,000.00	
3. Project Loans	21 %	15,000.00	** (3 to 5)	02	30,000.00	
4. Distress Loans	24 %	500.00	** (3 to 5)	-	-	-

\*\* 1. Availability of Paddy fields

2. Be a farmer

3. Be a member of the bank

4. Having of shares equal to 35 % of the value of the loan

5. 2 member's guarantee

Source: HARTI Survey on MCIs in 2001

**Table : A – 22 Manawa Sampath Prajamula Sanvidanaya of the Ritico Foundation**

1. Location : Alagollewa under Keeriyagaswewa
2. Name of the Society : Manawa Sampath Prajamula Sanvidanaya of the Ritico Foundation
3. No. of Members/account holders : **1,500**
4. Financial Assets :

Shares/Savings/Fees	Value (Rs.)	Interest per Annum (%)
1. Value of Shares	300,000.00	
2. Savings	500,000.00	

5. Total Value of Financial Capital : **800,000.00**

6. Credit Information :

Type of Loans given	Interest per annum	Maximum Obtainable (Rs.)	Eligibility Criteria And Rules	Amount Given within year 2001		Repayment Rate within year 2001
				No. of Farmers	Amount (Rs.)	
1. Business Loans	36 %	25,000.00	** (1 to 4)	142	575,500.00	80 %
2. Distress Loans	45 %	500.00	** (1 to 4)			
3. Consumption Loans	15 %	1,000.00	** (1 to 4)			

- \*\* 1. Should hold 10 shares of which the value of one share is Rs. 50/-.
2. Should have saved Rs. 300/-.
3. All people in a 5-member group should have completed the two above requirements if one of them want to obtain a loan of Rs. 3000/- in the first stage.
4. To obtain more money the individual as well as group savings should be increased to obtain Rs. 10,000/- the individual savings should increase to Rs. 2000/-.

Source : HARTI Survey on MCIs in 2001