

## Agricultural Credit in Rural Development

Credit, by removing financial constraints, can play an important role in accelerating agricultural production. It can also accelerate the adoption of new technologies. However, successful use of credit will depend on many factors such as the availability of complementary inputs in time, presence of efficient institutions and services, farmers' attitudes and their awareness about the proper use of credit. In addition, the nature of the follow-up and supervision by personnel of the credit-giving agencies, Agricultural Extension Service, Agricultural Productivity Committees etc. are vital considerations.

Although some credit facilities are available for purchasing livestock or for acquiring farm machinery and other inputs most of the credit that is available to farmers in Sri Lanka are short-term loans. These loans are given for purchasing farm-inputs such as seed, fertilizer and pesticides and for land preparation. Opportunities for using credit for productive purposes in agriculture is substantial. However, in Sri Lanka especially in the rural sector where small-scale farming is predominant, it is accepted that credit is not being used to produce a marketable surplus and thereby contribute to the development process. The considerable amounts on loans overdue and the continuous cycle of indebtedness of rural farmers justify this view. A survey of defaults in the repayment of agricultural loans conducted by the Department of Economic Research, Central Bank in 1972 highlighted the reasons given in the table at right, as the main causes for defaulting.

Needless to say, most of the listed causes can be removed through the proper supervision of credit. Though crop failure is generally caused by natural hazards such as droughts or floods it could also occur due to poor crop management such as neglecting a routine adoption of pest and disease control measures, which may result in epidemic conditions.

Many farmers are unaware or ignore the benefits which they could gain by the application of improved cultural

practices. In many cases, the recommended procedures appear to be only imperfectly adopted. This in fact clearly indicates the need for integrating extension facilities into credit programmes especially in the peasant sector.

Risk and uncertainty involved in agricultural production is a major constraint bound-up with the proper use of agricultural credit. A complete removal of this factor becomes impossible due to the biological nature of agricultural production. However, Crop Insurance, Multiple Cropping, Diversification of Agricultural Enterprises etc. are some measures by which these risks could be reduced. A "Supervised Credit Programme" would have to devote much attention to these factors.

It will be misleading to assume that all new technologies made available to the small farmer will be profitable to him. For instance, it could vary with specific conditions prevailing in different areas. This fact should be taken into consideration when designing a credit programme.

The absence of an adequate marketing infrastructure makes investments unprofitable. Although farmers may produce larger harvests in physical

### AMOUNT OVERDUE CLASSIFIED BY CAUSES OF DEFAULT

| Causes of Default                          | Percentage of defaults | Overdue with the interest as a percentage of the total overdue |
|--|------------------------|--|
| Crop failure ...                           | 26.4                   | 32.8   |
| Low income ...                             | 17.2                   | 16.2   |
| No intention to repay                      | 12.0                   | 14.6   |
| Illness/Death ...                          | 8.9                    | 8.8  |
| Indifference of co-operative ...           | 8.8                    | 6.3  |
| Malpractices of co-operative officials ... | 7.8                    | 5.0  |
| Heavy expenditure                          | 2.3                    | 2.1  |
| Think loans may be written off ...         | 2.0                    | 1.8  |
| Misuse of loans ...                        | 1.9                    | 1.7  |
| Others* ...                                | 12.7                   | 10.7   |
| Total ...                                  | 100.0                  | 100.0  |

\*Among these were: (i) Presumed loans were outright grants, (ii) Lack of irrigation facilities, (iii) Heavy indebtedness, etc.

terms sometimes they have to sell them at very low prices in comparison to those at the urban centres.

Lack of timely supplied inputs can also be regarded as a constraint for the proper use of agricultural credit especially in the rural sector. Success of the new technologies depends on a balanced application of several inputs; the absence of any one may adversely affect the benefits to be gained from using others.

However, increased availability of credit may have little effect on production if other economic policies related to the small farmer's situation act as constraints against the profitable use of credit. For example, if tenurial conditions are not favourable to small farmers or if the value which they gain at the expense of their labour is unreasonably low due to social factors, or due to lack of other incentives they may not produce a marketable surplus and thereby contribute to the development process.

Also, the success of credit operation depends on agricultural credit agencies themselves. For example, the financial viability of credit programmes, design of credit programmes or efficiency of the personnel involved in the delivery mechanism may also have an impact on the successful use of credit.

It is seen that agricultural credit could perform an important role in rural development provided that the recipient farmers have profitable opportunities for investment and programmes are well designed; if there exist an efficient supervision and follow-up of proper marketing channels for farm produce; complementary inputs are supplied in time and that other socio-economic factors are also reasonably favourable. Some form of "package programme", where granting of credit is accompanied by the technical supervision, supply of inputs in time, purchase of produce at a reasonable price and so on, is needed to produce a marketable surplus and thereby contribute to the development process in rural areas. This package programme could reduce the risk of defaulting to a significant degree; it could then be possible for credit agencies to provide loans at a lower rate of interest.