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Impediments to expansion of Bank credit to small Farmers in Sri Lanka

Summary

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Apart from the problem of loan defaults which had been the major problem upto now, an additional problem, consequent to the recent changes introduced regarding the eligibility criteria to borrow under the Comprehensive Rural Credit Scheme (CRCS), is the low volume of credit granted to the agricultural sector. In a situation where the provision of an adequate volume of credit to meet the growing demand of agriculture is an urgent necessity, a contraction in the volume of credit, as has been experienced recently, would compel the small farmer to resort to non-institutional sources of borrowing. This would be contrary to the government policy of providing pecuniary relief to small farmers which had been one of the government's objectives in intervening in the field of rural credit. Institutional credit has not been able to make an impact on small farmer credit. The paper examines some of the factors which impedes the expansion of bank credit to this sector.

It is argued in Section 3 that a typical farm household with a holding of about 2 acres of paddy is potentially viable. However, they are currently very close to poverty line, and lending to this sector is therefore, constrained by this factor. This situation can however, be improved since the prospect of raising the income level of the farmer in this category is good, as the potential for achieving higher yield is high. Section 4 examines the suitability of the co-operatives to service the farmer. It is argued that despite the short-comings of the co-operatives in the past, small farmers could be best assisted through the co-operatives. This requires however, a strong co-operative structure at primary, secondary and national levels with emphasis on self-help, which had been hitherto neglected. The final section examines the personnel deficiencies in the commercial banks. It is argued that in order to fulfil the new role expected of banks in helping the small farmers it is necessary to reorient the attitudes and train bank cadres. Similarly recruitment, promotion policies as well as performance criteria of employees engaged in agricultural work has to be changed to reflect the changed environment.

I. Introduction

Financing agriculture became the responsibility of the banking system only in 1967. Prior to this channelling of credit was the responsibility of the Department of Agrarian Services. Thus, it is relatively a new field of activity

for commercial banks, especially for Bank of Ceylon and People's Bank, who have entered this field as a result of Government policy.

The Bank of Ceylon was originally intended to be a commercial bank with the primary objective of providing credit to the Ceylonese businessmen and entrepreneurs who had very little access to credit from foreign banks.¹ In the fifties, with the emphasis laid on industrial development, it had to adapt itself more and more to financing the capital needs of new industries. With the nationalisation of the Bank in 1961, it was called upon to play a significant role in the economic development of the country. In the seventies, the Bank had to move from its knowledge of the fields of industrial and commercial activity to agricultural activity.

People's Bank on the other hand, in addition to its normal commercial banking activities, is required by statute to develop the co-operative movement, rural banking and agricultural credit². In discharging these functions, the bank has to work in close co-operation with co-operative organisations and government departments engaged in national development, particularly in the rural sector.

As far as the business of traditional commercial banking is concerned both banks have, over the years, been able to train their officers adequately. The expertise and knowledge thus gained and accumulated have been put to practical use in developing the services of the two banks.

With regard to its new responsibilities towards agriculture there has been a number of significant developments during the decade 1967—77. During this period, there was a rapid expansion in the number of bank branches serving the rural sector. For example, Bank of Ceylon opened about 400 new Agricultural Service Centre (ASC) branches in rural areas during a short spell of two years (1973 - 1975). Until 1973 for more than fifty years of its existence it had only about 100 branches, practically all of which were located in urban centres. The People's Bank on the other hand opened about 340 rural banks during the period 1968 - 76.

The expansion in the lending network of the two banks also brought about certain changes in the systems and norms of these credit institutions. For example, the two banks now provide finance to genuine cultivators, without insistence on tangible security. Secondly, unlike in the past both banks attempt to provide some degree of supervision over their farmer clientele. Thirdly, the two banks are now willing to consider any economically viable activity to be bankable, provided that it is technically feasible. At the beginning of the decade

1. Report of the Ceylon Banking Commission
2. People's Bank Act No. 29 of 1961.

the two banks, specially the Bank of Ceylon were generally reluctant to finance activities that did not relate to the creation of tangible assets.

These attainments and lessons learned, viewed against the near absence of institutional credit outlets in the rural sector in the early 1960s appear to be impressive indeed. One has however, to keep in mind, the circumstances under which these attainments were achieved. In late 1960s the Government of Sri Lanka was engaged in a "production war" and production of food was the primary goal. It was in this context that banks were called upon to provide agricultural credit which was a major departure from the hitherto accepted practice of government departments providing agricultural credit facilities.

This situation has however changed today. The present concern is not merely increased food production, but also, the development of the rural community and specially the small farmer. But after years of state sponsored credit programmes (Table 1) and despite the large number of credit outlets in the rural areas, the lending institutions are now switching back to the practice of selective lending (Table 2). This has not only resulted in drastic reduction in the volume of agricultural lending, but also denial of credit to small farmers.

TABLE 1
Cultivation Loans granted under the
Rural Credit Scheme

Cultivation Season	Loans granted Amount	Recoveries Amount	Amount in Default	Percentage of default
1967-68 Maha	61,424	52,808	8,566	13.9
68 Yala	11,288	9,801	1,487	13.2
1968-69 Maha	45,802	28,495	17,307	37.8
69 Yala	9,867	8,103	1,764	17.9
1969-70 Maha	39,347	20,617	18,730	47.6
70 Yala	12,358	8,773	3,585	29.0
1970-71 Maha	23,456	12,883	10,573	45.1
71 Yala	5,817	5,070	747	12.8
1971-72 Maha	23,956	15,247	8,709	36.4
72 Yala	6,667	5,392	1,275	19.1
1972-73 Maha	20,236	13,481	6,755	33.4
73 Yala	8,029	5,087	2,942	36.6
1973-74 Maha	85,817	43,307	42,510	49.5
74 Yala	25,243	15,376	9,867	39.1
1974-75 Maha	74,751	35,275	39,476	52.8
75 Yala	10,831	8,325	2,506	23.1
1975-76 Maha	55,292	29,845	25,447	46.0
76 Yala	16,915	12,583	4,332	25.6
1976-77 Maha	83,072	34,108	48,964	58.9
77 Yala	15,754	9,477	6,277	39.8
1977-78 Maha	420,273	83,546	305,364	72.7
78 Yala	32,441	13,808	12,424	38.3

Note : Loans upto 1973 were granted under New Agricultural Credit Scheme (NACS). Since then loans have been granted under CRCS which replaced the former scheme.

Source : Central Bank of Ceylon - Review of the Economy P. 47

TABLE 2

Cultivation Loans granted for Paddy under the CRCS for Yala 1978 & Maha 1978/1979

		Rs. '000							
Cultivation Season	Loans granted Amount (Rs)	Total		repayment		Dues not in default		Defaults	
		Amount (Rs)	% of amt. granted	Amount (Rs)	% of amt. granted	Amount (Rs)	% of amt. granted	Amount (Rs)	% of amt. granted
1978 Yala	32,441	13,808	42.6	6,209	19.1	12,424	38.3		
78/79 Maha	66,000	38,000	58.0	-	-	28,000	42.0		

Sources : People's Bank, Bank of Ceylon & Hatton National Bank Ltd.

Even when credit was granted liberally under the existing schemes of NACS & CRCS, institutional sources of credit remained a very small proportion in relation to the non-institutional sources. According to the Report of the Survey of Rural Credit and Indebtedness 1971³ non-institutional sources supplied as much as 75 per cent of the borrowings of the farmers of which, the most important were friends and relations (25.8%), semi-professional and professional money lenders (28.8%) and traders (10%). Institutional credit on the other hand supplied only 25% of their credit requirements. This low share is likely to decline even below this amount with the stringent application of eligibility criteria which is now being applied by commercial banks in lending under the CRCS.

The vast production potential which has remained as yet untapped in Sri Lanka is accounted for however, by the insufficient use of resources at the command of much larger majority of small farmers. It is here that institutional credit could not make an impact and it is this segment that remains dissatisfied with the services provided by the formal credit agencies. Obviously, some of the pre-requisites which could ensure the efficient working of the existing credit system appear to be absent in the context of small farmers' credit.

II. Lack of Clearly Defined Credit Policy Towards the Small Farmer

In Sri Lanka despite the fact that it has been the objective of the Government to "provide pecuniary relief to small farmers who relied heavily on non-institutional credit"⁴ there is no definition of the term "small farmer". Hence

3. Central Bank of Ceylon - Report of the Survey of Rural Credit and Indebtedness 1971

4. Report of the Committee on Agricultural Credit (1966) unpublished.

agricultural credit at concessional rates are available to all farmers as per approved scales upto 10 acres per farmer.

An essential requirement for ensuring the success of efforts of the agencies responsible for implementing small farmer development, is the definition of the small farmer. This would enable the agencies concerned to identify and direct their efforts specifically towards them. The absence of a clear definition regarding the small farmer has resulted in the ineffective coverage of the small farmer as well as the richer farmer taking full advantage of the benefits provided under the scheme. The investigations into irregularities of sugar cane loans in the Amparai District⁵ confirms the view that unless the small farmer is clearly defined and identified, it is the more influential and well to do farmer who will benefit from such schemes.

In defining the small farmer it is possible to make use of either the income criterion based on appropriate norms and standards of living in terms of nutritional factors or adopt a definition based on the size of the holding⁶. For reasons of operational convenience the latter may be more useful. In adopting a definition based on size of holding however the two important aspects would be the type of holding and the classification of land according to availability of irrigation, quality of soil, crops grown etc., which determines the agricultural income.

III. Potential viability of the Peasant farming Unit

An important pre-condition for successful agricultural credit is the viability of the farming unit as an enterprise. The term viability is used to indicate that the economic activity which is to be financed from a loan is likely to generate an adequate surplus for repayment of a loan. Hence, it is necessary to examine whether farming itself will generate a surplus and the amount of money loaned could be recovered. If for instance, within a given production structure farming itself is an uneconomic venture, then the chances of launching a successful agricultural credit programme would be meagre unless simultaneous measures are taken for reforming the production structure.

Table 3 summarises the distribution of agricultural holdings reporting paddy cultivation according to size groups.

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5. Ministry of Plan Implementation - Investigations into irregularities in granting of sugar cane loans in Amparai District.
 6. Report of the Regional seminar for Asia on Agricultural credit for small farmers, F.A.O. Rome (1975).

TABLE 3
Distribution of Holdings*
Reporting as Asweddumised Paddy by size and by
number of parcels

Size class of paddy Acres unit	No of holdings with paddy	Percentage	Area of Paddy Acres	Percentage	Total No. of paddy parcels	Percentage
All classes	668,480	100.0	1,189,076	100.0	1,109,832	100.0
Less 1/8	13,725	2.1	945	0.1	15,091	1.4
1/8 -- less than 1/4	30,859	4.6	4,731	0.4	35,374	3.2
1/4 -- " 1/2	247,158	37.0	120,522	10.1	329,630	29.7
1/2 -- " 1	154,465	23.1	188,114	15.8	275,568	24.8
1 -- " 2	84,636	12.7	181,615	15.3	161,556	14.6
2 -- " 3	66,310	9.9	203,913	17.1	112,400	10.1
3 -- " 4	23,539	3.5	96,701	8.1	52,119	4.7
4 -- " 5	37,562	5.6	224,139	18.8	92,368	8.3
5 -- " 10	6,200	0.9	68,610	5.8	19,633	1.8
10 -- " 15	1,881	0.3	30,458	2.6	7,207	0.6
15 -- " 20	956	0.1	20,248	1.7	3,839	0.3
20 -- " 25	921	0.1	28,662	2.4	3,663	0.3
25 -- " 50	268	...	20,418	1.7	1,384	0.1
50 and over

Source: Census of Agriculture 1973 - Department of
Census & Statistics Colombo 1976 - Table
12 p. 17.

- * A holding has been defined in the census as a single technical unit operated or managed by one person alone, or with the assistance of others without regard to title, size or location.

As the above table indicates, 67 per cent of paddy holdings are less than one acre in extent. Holdings less than two and half acres account for about 80 per cent of the total number of paddy holdings. This signifies the preponderance of small holdings and the importance of the small farmer in the traditional agricultural sector.

In a recent article, Lee⁷ has pointed out that the available evidence indicates that there has been an increase in the inequality in size distribution of paddy holdings between 1962 and 1970. This study shows that the percentage of paddy holdings of less than one acre increased from 34% to 65% between 1962 and 1970. Lee also notes that between 1962 and 1970, rural population increased by 20% whilst paddy cultivated area increased by 12%. Further the number of paddy holdings increased by 42 per cent in the same period whilst the average size of holding dropped from 2 acres to 1.5 acres.

7. Lee., E.L.H. Rural Poverty in Sri Lanka 1963 - 1973. Poverty and Landlessness in Rural Asia - I.L.O. Geneva.

Given this predominantly smallholder land ownership of our farming population it is necessary to have an understanding of their problems/characteristics in order to see whether provision of credit would benefit them. After all, credit can only facilitate the bringing together of available means of production in an ongoing activity. An ongoing activity however, assumes the existence of two vital conditions. Firstly, there should be a productive opportunity and secondly the existence of entrepreneurship. If credit were given to those who did not either have the requisite entrepreneurial talent or who were not capable of identifying viable opportunities, it could contribute very little to production.

It is interesting to note in this connection that the report on the Bank Committee on Agricultural Finance (1978) considered farms below 1 acre in extent as "non-viable".⁸ Although the report does not define the term "non-viable", in this paper non-viable farmers are defined as those whose resource base would not be capable of producing adequate earnings to support their family, even if these resources were put to optimal use. Typically, paddy farmers in this group have less than an acre to cultivate. They frequently cultivate only one crop, practice inferior methods of cultivation and have no other gainful activity to engage in. Their income falls short of their living requirements.⁹ In their case there is hardly any distinction between production and consumption credit. They compromise on the optimal use of production credit. This compromise leads to lower output, thereby widening the consumption gap and leading to a cycle which repeats itself. From the data on paddy holdings it might appear that the majority of paddy farmers owned uneconomic small holdings which are incapable of yielding even a subsistence income. However, majority of these operators are only engaged part-time on paddy farming and have other sources of income from high land holdings as well as outside part-time employment. In view of this, production credit given by formal institutions to this class of borrower would not be effective either from the point of view of encouraging increased production or from the lender's point of view of retrieving the loan. Therefore, so long as these farmers remain non-viable, commercial banks would not be able to recover credit provided to this sector.

In order to help those farmers who are not viable, but who could be made viable through adoption of programmes, possibly financed by commercial banks, it is necessary to identify potentially viable farmers so as to exclude those farmers who are too small to become viable even with external assistance. Farmers who own between 2-2½ acres could be considered as potentially viable i.e., those who could make a reasonable living if their existing resource base is

8. Report of the Committee on Agricultural Finance (1978) unpublished

9. Tennakoon M.U.A., Towards a Pragmatic Rural Credit Policy in Sri Lanka (mimeographed) Tables 5 and 6.

more productively employed but at the moment are making earnings below subsistence due to inefficient use of resources.

The average annual income of a holder of two acres of paddy land, who is engaged as full-time paddy farmer would be approximately Rs. 8,480.00¹⁰ assuming an average yield of 53 bushels per acre, which is the current all island average, and a crop intensity of 1.6. This income will be further supplemented by other garden produce and subsidiary food crops if he possesses a small plot of high land. Therefore, an annual income of Rs. 9,000.00 for a typical farm household would not be an over estimate.

The "average cost" of paddy production per acre in Mahaweli Development area in Maha 1973-74 was Rs. 1,297.18—Rs. 1,037.62 in villages and Rs. 1,334.65 in colonization tracts¹¹. These figures are considerably low compared to Rs. 1,526.63 which is the estimated average cost per acre for the same season in the Anuradhapura district, furnished by the Government Agent, Anuradhapura. Since there have been significant increases in the cost of tractor hire, labour and other materials since 1974, it may not be unrealistic to assume the current average cost of production per acre to be approximately Rs. 1,600.00. Thus, the cost of cultivating two acres of paddy per annum would amount to approximately Rs. 3,200.00. The net cash income available for consumption and other household expenditure would therefore be in the region of Rs. 5,800.00 per annum for each household¹² or about Rs. 480.00 per month. Based on these figures one might conclude that a typical farm household with a holding of about 2 acres of paddy and yielding 53 bushels of paddy per acre, by taking 1.6 crops from the land is very close to poverty line.¹³

Studies on cost of production and farm prices in different parts of the country appear to support the view that the income generating capacity of paddy cultivation is limited and that tenant cultivators had a negative income in certain districts.^{14,15}

¹⁰. This is based on Rs. 50/- a bushel of paddy which was the prevailing guaranteed price in December 1980.

¹¹. Central Bank of Ceylon - Survey of Economic Conditions in Mahaweli Development Area 1974.

¹². According to information contained in the locality studies, the average number of family ranges from 4 to 8 persons. Rice Revolution in Sri Lanka - United Nations Research Institute for Social Development - Geneva, 1977.

¹³. In terms of the Food Stamps Scheme of the Government, introduced in September, 1979, households receiving an income of Rs. 300/- or less per month are eligible to receive food stamps which entitles them to receive a specified basket of commodities. Rs. 300/- could therefore be regarded as poverty line.

¹⁴. Izumi and Ranatunga A. S. - Cost of Production of Paddy Yala 1972 Research Studies No. I, ARTI, 1973.

¹⁵. Ranatunga & Abeysekara N. A. T. Profitability and Resources Characteristics of paddy farming, ARTI, 1977.

The current low earnings of this class of farmer may however be attributed to inefficient and sub-optimal use of resources. This is due to a number of reasons. Firstly, quite apart from the much more demanding requirements of the new technology which most of our farmers are not accustomed to, the farmer must depend on many factors beyond his control if he is to perform this complex operation successfully. Getting fertilizer poses many problems. Inefficiencies in distribution, inadequate storage capacity and liquidity problems at the local co-operative store may prevent the farmer from obtaining his fertilizer requirements on time. There is evidence to show that farmers adopt recommended practices which are necessary to achieve a higher yield either partially or imperfectly. For instance farmers are not sufficiently appreciative of the timely application of fertilizer and agro-chemicals so that benefits from applications are reduced. Despite the current low earnings however, their potential for increased earnings appear to be substantial. This is because they have an adequate resource base which could be developed further with proper guidance and help. The task of the commercial banks would therefore be to concentrate on this sub group of potentially viable farmers with provision of adequate and timely credit facilities so that they could be made viable.

IV. The Problem of Numbers and the Suitability of Co-operatives to Service the Farmer

The problem of reaching the small farmers who number approximately about one million¹⁶ is a task of considerable magnitude. The magnitude of this task increases several-fold in loan disbursements, in view of the fact that loans have to be disbursed before the cultivation season commences. The time period available for credit disbursement is therefore relatively short. Within this short period, it is almost an impossible task to deal with a large number of prospective borrowers on the basis of traditional banker-customer relationship. Hence, institutional structures such as the village co-operatives or new groups or associations would have to be considered. The Committee on Agricultural Credit (1966) considered that the Co-operative Societies should continue to be the institutional devise for the distribution of agricultural credit at the village level. It was their view that “. . . . where village level co-operatives function satisfactorily, the advantages inherent in their constitution for operating a credit scheme for the small cultivators are so conspicuous that to replace them with any other institution organized on a different basis will be foolhardy”.¹⁷

The co-operative network has, of course obvious advantages over any other organisational system, in view of its widely dispersed network of branches with

¹⁶. Report of the Royal Commission on Co-operatives - Sessional Paper II 1970.

¹⁷. Report of the Committee on Agricultural Credit (1966) unpublished.

easy access to most cultivators. This branch network could be made use of to ensure that small farmers receive all requisite supplies necessary for production. With the rapid increase in inputs for modern farming and the sophistication called for in the selection of the requirements appropriate to his needs, it is obvious that the farmer will need much guidance. Where this has been provided by the Agricultural Extension Services, some agency must be ready to stock the requirements in the village or procure them at short notice. The obvious agency is the local co-operative and it is wasteful and duplication of effort to call upon the importers of essential agricultural supplies such as agro-chemicals to establish an island-wide chain of distributors at the village level, when the co-operative network is already there.

The principle that the small farmer is best assisted through the co-operatives has long been accepted. The major role the co-operatives must play in national development is equally well understood and accepted. It is the implementation that has fallen short of both what is necessary and feasible.

From the inception of the co-operative movement in Sri Lanka, credit was provided to the small farmer by credit societies of unlimited liability and it is undoubted that the operation of this type of society was generally successful, though both the scale and scope were limited. The membership of each society was small and the policy of the authorities had always been that they should stay small on the principle that a small number of members who know and trust each other would co-operate with greater confidence. If there was a demand for membership by a large number, these were usually organised into a separate society. On account of the unlimited liability factor, which the members knew the authorities were quite ready to enforce if necessary, loan recoveries were excellent, for it was pointed out by the Registrar in 1948 that over Rs. 14 million had been lent and recovered from these small societies with a loss of only Rs. 4,000/- an almost incredible record in view of the subsequent developments.¹⁸

With the reorganisation of the Co-operative Movement in 1957 and 1971, the multipurpose concept replaced the single purpose concept of co-operation. This also led to the replacement of the voluntary character of the co-operative movement by a government organised movement intended to achieve government's objectives, such as fair distribution of consumer goods in short supply and the provision of credit and necessary agricultural inputs and services for the production of rice and subsidiary foodstuffs. The newly created MPCS also had an enlarged membership. This brought about complications in management and accounting. Further, it destroyed the principle that members must know each other if they are to co-operate with each other. The net effect of the reorganisation in 1957 and 1971, was to bureaucratize a voluntary

18. Report of the Royal Commission on Co-operatives - Sessional Paper II 1970

movement and alienate it from popular participation. Further, although the multipurpose concept was advocated, relatively few societies proved capable of fulfilling multipurpose responsibilities. Many societies proved too small to be viable and others merely confined themselves to consumer goods particularly in the urban and sub-urban areas.¹⁹

The failure of the co-operative movement to serve the interests of the farmer is well documented. The survey of Defaults in the Repayment of New Agricultural Loans observed, that "the image of the bulk of the co-operatives from which loans had been obtained does not fare well".²⁰ The principal defects of the co-operatives are

- (a) the misuse of monies repaid by members through the co-operative societies and diverted by the latter for consumer activities ;
- (b) the indifference of co-operative officials ;
- (c) rising trend in the incidence of loan defaults ; and
- (d) general incompetence and poor management of co-operatives.

It has to be concluded therefore that the contribution of co-operatives has lagged far behind expectations. In the light of this situation, how is it that an institution which has given rise to so much frustration and disappointment is still considered to be a valuable instrument for socio-economic advancement? Witness for example, the statement by the Royal Commission on Co-operatives" whatever the shortcomings of the existing organization, it remains abundantly clear that in Ceylon, with its dependance on small holdings for production of rice and subsidiary foodstuffs, and for about half its coconut production co-operatives must play the major role in agricultural development which in this context is synonymous with national development.²¹ The only reason why it should succeed is that without mutual self help and without an organisation in which individuals are grouped together on a voluntary basis, it would be very difficult for any government service to implement effectively its development programmes. If co-operatives are to succeed however, it is imperative that the domination of government influence with its paternalism should be replaced by voluntary and strong co-operative structures at primary, secondary and national levels, with emphasis on self-help character of co-operatives which had hitherto been neglected.²²

19. *ibid*

20. Central Bank of Ceylon - Survey of defaults in the Repayment of New Agricultural Loans, 1972.

21. Report of the Royal Commission on Co-operatives - Sessional Paper II, 1970

22. See also, Piyatissa Y. A. - Towards a participatory, as distinct from paternalised approach to agricultural credit in Sri - Lanka Agricultural Administration Applied Science Publishers Ltd , England (forthcoming).

V. Personnel deficiencies of Commercial Banks

The efficiency of credit institutions depend not only on the technological and economic environment in which it operates but also on the quality of its staff. By "quality" it is meant the suitability of staff in various positions to fulfil adequately the requirements of these positions. For example, highly "motivated" staff are required for credit supervision work which is very necessary in dealing with small farmers. Supervised credit is an educational process related to the use of credit. The basic idea is that the combination of agricultural credit and technology if properly applied can be more effective than either credit or education alone. Supervision in relation to credit requires the banks to :-

- (a) Provide assistance to the cultivator to estimate and assess correctly on the various types of loan and the quantum of credit for a particular farming season ;
- (b) Advise him to use such credit effectively to the best advantage ;
- (c) Suggest improvements in his farming techniques and induce him to follow improved farm management practices.

It was the awareness of the effectiveness of Supervised Credit that prompted the recruitment of field officers such as Development Assistants (DAs) by the People's Bank.

Provision of supervised credit, however, requires the availability of field officers trained in extension and crop production. What are the qualities that would go to make a successful field officer ?

Firstly, he should have an intimate knowledge about the borrower, his skills and his needs and should be able to readily distinguish the prudent from the extravagant. He should be able to make a fairly accurate assessment of his client's ability to bear debt both in the short and long run and of which sources could provide emergency funds for repayment and what kind of follow-up might be effective. He should be able to regulate the size and maturity of lending to suit such repayment capabilities. Further since he is in direct contact with the farmer, he should be able to report intelligently, not only by monthly return of figures but on difficulties as well as opportunities.

However, the supervision by field level officers do not appear to have had the desired effect for number of reasons.²³ In the first place most of the DAs are not technically qualified either by education or experience. They are junior level officers whose time is mostly spent on routine day to day administrative work of rural banks rather than developmental work. These officers are expect-

23. Piyatissa Y. A. - Lending Agencies and the Problem of Defaults in Agricultural Credit. A Case Study of Sugar Cane Loans in the Amparai District - paper presented at the Ceylon Studies Seminar / Conference on Post-war Economic Development of Sri Lanka. 16 - 20th December 1980, University of Peradeniya.

ed to deal with large number of cultivators who are spatially distributed. They have however not been provided with adequate transportation facilities. As a result, not only do they spend less time with the farmers but they are able to cover only a handful of them. Moreover, there is no evidence to show that they do any real development or field work. A perusal of the field note book maintained by them revealed that the entries related to the time of arrival and departure, for purposes of claiming travelling allowance. It did not give any information as to the number or name of villages visited or the number of village cultivators contacted etc. Basically, however, the Development Assistants have neither the time nor the orientation for developmental work.

Secondly, the officers of the two commercial banks have acquired their knowledge from routine work relating to their traditional commercial banking activities. The knowledge and experience of the bank cadres acquired in the past, therefore, are of little relevance in financing the small farmer. In fact this knowledge and attitudes that go with it may well be a barrier to the effective discharge of their new responsibilities. To fulfil the new role it is very necessary that the required changes in aptitudes and attitudes are forthcoming. This could be achieved only through regular courses of training and re-orientation.

Thirdly, the performance criteria of these officers are largely assessed at present by management criteria carried from an earlier era when the attitudes of management to the role of bank credit in furthering national economic objectives were radically different. Under the 'British Banking Tradition' inherited from colonial times lending has been security oriented. It, therefore, followed that the performance criteria were also based on security of loans rather than customer build-up oriented to future profitability.

Fourthly, rural areas need personalised banking service and therefore banking in these areas should have a local character to command the confidence of the local people. The reluctance of bank personnel who are still essentially urban oriented to serve in rural or even semi-urban areas, the frequent changes necessitated in the placement of staff and the resultant lack of continuity of personnel who are conversant with the area adversely affect the services rendered by banks to small borrowers in rural areas.

In order to overcome these problems incentives must be provided taking into account the practical problems the employees have to face in serving in remote or difficult areas. In these areas the Bank staff have to work in considerable isolation and without the amenities that they may have been used to. Employees having children of school going age may be faced with the problem of lack of educational facilities locally. A method of meeting these problems is to recognize service in these areas for promotion by attaching weights to an employee's service in these areas.