

## Agricultural Credit from the Banks

One of the main responsibilities of the People's Bank has been to provide agricultural credit to the small holding sector of Sri Lanka which comprises over 1.8 million small cultivations. It was partly a social obligation on the part of the Bank to continue this form of unprofitable and risky lending, and therefore the People's Bank involvement in the agricultural sector has been far more prominent than the other commercial banks in the country. The share of advances granted to agricultural sector in the entire banking system was only 8.5 percent as at

the end of June 1985, while the People's Bank's share of agricultural credit in its total advances was 12.8 percent as shown in Table I below.

The Bank's commitment to the small holding sector in this country has remained higher than any other commercial bank during the year 1986 as well. This was possible because the People's Bank has a wider network of branches in the rural sector, including the Co-operative Rural Banks. As shown in Table II out of the total agricultural credit sanctioned for release by the banking system, amounting to

Table I

Purpose	Banking System share as % of total advances	People's Bank share as % of total advances
Commercial 49.8	34.4	34.4
Financial	2.3	1.0
Agricultural	8.5	12.8
Industrial	24.4	28.1
Tourism	2.1	2.0
Housing	7.1	13.6
Consumption	1.6	3.1
Other	4.2	5.1
Total	100	100

Source: *People's Bank 25th Anniversary Publication 1986, P.26.*

Table II CULTIVATION LOANS GRANTED BY BANKS - 1986/87

Name of Bank	1986 Yala		1986/87 Maha	
	As a % of total borrowers	As a % of total amount granted	As a of total borrowers	As a % of total amount granted
People's Bank	57.5	62.0	47.7	49.5
A	(47.9)	(50.6)	(38.0)	(40.8)
B	( 9.6)	(11.3)	( 9.7)	( 8.7)
Bank of Ceylon	37.0	34.0	45.2	44.0
Hatton National Bank	3.0	3.2	3.1	4.6
Indian Overseas Bank	0.5	.1	0.3	0.1
RRDBs	2.0	.8	4.0	1.9
Matara	(1.51)	(.59)	(1.6)	(.66)
Kalutara	(0.34)	(.11)	(0.5)	(.09)
	(0.11)	(.06)	(0.8)	(.37)
Anuradhapura	(-)	(-)	(0.8)	(.73)

Source: *Department of Rural Credit, Central Bank of Sri Lanka.*

A = Direct Lending. -B = Indirect Lending

Rs 151 million in 1986 Yala, the People's Bank accounted for 62 percent. The rescheduling system of agricultural credit introduced in 1986 allowed the Bank to disburse credit to a larger number of farmers than before. During this year defaulting farmers were also given opportunities to borrow fresh loans. They have been allowed 10 cultivation seasons to pay their defaulted loans on an easy instalment basis. As a result a very high value of cultivation loans were granted during 1986 Yala, though loans granted in 1986/87 Maha were comparatively low. However, the People's Bank's involvement in agricultural lending during this season was more prominent than the rest of the banking sector.

As seen in Table II 47.7 percent of the total cultivation loans were granted directly by the People's Bank in 1986/87 Maha season and 8.7 percent were channelled through the Co-operative Banks.

The Bank of Ceylon and the Peo-

ple's Bank had taken on the main responsibility of providing cultivation loans to small holders during the year 1986, together contributing 93.5 percent of the total loans of the entire banking system. Out of the total amount of Rs 362 million sanctioned by both State Banks, during the year the loans of the People's Bank constituted about 55 percent of the total as shown in Table III. The People's Bank sanctioned loans to the highest number of farmers in the Anuradhapura district in which the number of small holders is comparatively high, where as the Bank of Ceylon's loans to highest number of farmers were in the Polonnaruwa district where the number of small holdings are lower and agricultural performance is considered satisfactory. The Bank of Ceylon also extended its involvement to Nuwara Eliya district where the total number of small holders is comparatively low; a situation which indicates that the People's Bank has taken more risks in servicing the smaller cultivations in the Dry Zone districts.

The Central Bank reporting on the favourable credit situation under the New CRCS in 1986 states that the increase in lending was shared by all three major participating banks. An increase of 88 percent in lendings compared to the previous year was reported by the People's Bank while the increase reported by the Bank of Ceylon and the Hatton National Bank were 43 percent and 34 percent respectively. The highest volume of lendings as well as the highest rate of increase were reported by the People's Bank. The cultivation loans granted by the People's Bank amounted to Rs 124 million in 1986 compared to Rs 66 million granted in the cultivation year 1985. Of the total cultivation loans granted in the cultivation year 1986, 48 percent was granted by the People's Bank while the respective shares of Bank of Ceylon and the Hatton National Bank were 38 percent and 13 percent. In addition to the increased efforts by the banks to lend under the NCRCS, the operation by the People's Bank of the Rescheduling Scheme of Overdue Cultivation loans introduced by the Central Bank also helped in increasing the volume of lendings.

Table III CULTIVATION LOANS GRANTED (RS.000) - 1986

	Total Small Holdings	People's Bank		Bank of Ceylon	
		Number	Amount	Number	Amount
Anuradhapura	86,440	9604	76100	3237	25840
Badulla	69620	5156	38576	1372	11179
Polonnaruwa	32370	3569	25579	7700	50155
Hambantota	17540	4143	23954	2084	14516
Matara	96320	1037	4429	766	55224
Puttalam	67710	1290	7661	762	5224
Kuruneagala	218220	1743	6513	2000	8068
Betticoloa	46930	603	4002	647	6510
Amparai	58890	300	2824	1940	9349
Ratnapura		523	2467	1765	10127
Matale	50360	370	2314	972	6176
Galle	116540	62	193	439	1230
N'Eliya	38190	239	1555	2078	10331
Kalutera	102030	47	84	682	1204
Kegalle	97530				
Moneragala	46780			433	2095
Gampaha	170140	453	1014	240	528
Kandy(107540)	107540	142	611	155	371
Trinco	24040	3	20		
Vavuniya	14700			18	211
Jaffna	96770			55	733
Mannar	62250			06	15
Colombo	11650			50	910
<b>Total</b>		<b>29318</b>	<b>197977(55%)</b>	<b>27626</b>	<b>164485(45%)</b>

Source: Department of Rural Credit Central Bank of Sri Lanka.

Loans for paddy cultivation in 1986 totalled Rs 189 million or 74 percent of the total cultivation loans. It showed an increase of 56 percent compared to the amount granted in the previous year. The People's Bank granted Rs 96 million or 51 percent of all paddy loans, compared with 45 percent in the previous year. The Bank of Ceylon retained its share of paddy loans in the cultivation year 1986 at 39 percent, as in the previous year. The paddy loans granted by the Hatton National Bank shows a decline of Rs 1.7 million or 9 percent.

Loans for minor food crops rose by 80 percent in the cultivation year 1986 compared to the previous year. The People's Bank and the Hatton National Bank lending, almost trebled to Rs 28 million and Rs 15 million respectively. The corresponding increase by the Bank of Ceylon was from Rs 22 million in 1985 to Rs 25 million in 1986.

L.S.