

AGRICULTURE

Cultivation Loan Disbursements Decline

The agricultural loans granted by the banks under the Comprehensive Rural Credit Scheme for the cultivation season 1978/1979 were only a fraction of those granted in 1977/1978 with more stringent criteria being applied in judging loan applications. A relaxation of eligibility criteria for the Maha 1977/1978 season resulted in the largest expansion in cultivation loans granted under the Comprehensive Rural Credit Scheme. It also saw the highest rate of default recorded for any single season, the rate of default reaching 78 percent. The loans granted for paddy cultivation alone amounted to Rs. 453 million and recoveries were only 21.5 per cent. The total amount of paddy loans granted by the banks since the inception of these Credit Schemes in 1967 has amounted to Rs. 1089 million upto Maha 1977/78. Of this amount Rs. 617 million or 56 per cent was in default as at the end of 1978.

The unprecedented expansion in cultivation loans granted in 1977 and early 1978 and the very high rate of default associated with it compelled the Government to restructure the Comprehensive Credit Scheme. In order to obtain loans for Yala 1978, farmers were required to pay their Maha 1977/78 loans in full. In the case of loans taken prior to Maha 1977/78, a minimum of 10 percent down-payment of the outstanding loans had to be paid. These conditions continued to be effective for the

Maha 1978/79 season as well. In addition, farmers were required to pay their Yala, 1978 loans in full to obtain loans for the Maha season. These requirements were a complete reversal of the previous year's liberalized scheme of loans. The withdrawal of the 75 per cent credit guarantee operated by the Central Bank was another major change in the Comprehensive Rural Credit Scheme. The guarantee was introduced along with the New Agricultural Credit Scheme in 1967. Under the Guarantee scheme, 75 percent of the amount in default of cultivation loans granted by commercial banks was reimbursed by the Central Bank on behalf of the Government.

The Central Bank comments that "the scheme facilitated the expansion of cultivation loans over the years; but it is probable that such a high rate of guarantee also made lending banks less concerned about loan recovery. The absence of the guarantee will compel the banks to be more cautious about lending, and is likely to cause a significant contraction of agricultural credit perhaps to pre-1977 levels. Undoubtedly, the sudden liberalization of agricultural credit in late 1977 was an inadvisable move. Naturally, abuses of agricultural loans were legion. But the reaction to such abuse by subjecting agricultural credit to the criteria of normal commercial bank lending, as has happened appears to be too drastic. It may have been preferable if the guarantee was withdrawn in stages, enabling the banks to develop credit supervision facilities in a short period". (A detailed analysis appears in our next issue)

Cultivation Loans Granted under Rural Credit Scheme.
(as at 31st December 1978)

Rs. Million

Cultivation Year	Loans Granted			Recoveries			Percent of Recoveries		
	Paddy	Other Crops	All Crops	Paddy	Other Crops	All Crops	Paddy	Other Crops	All Crops
67/68-69/70	180.1	19.4	199.5	128.6	15.5	144.1	71.4	79.9	72.2
70/71-72/73	88.2	24.8	113.0	57.2	19.0	76.2	64.8	76.6	67.4
1973/74	111.1	26.2	137.3	58.7	15.3	74.0	52.8	58.4	53.9
1974/75	85.6	27.3	112.9	43.6	15.5	59.1	50.9	56.8	52.3
1975/76	72.2	36.4	108.6	42.4	16.5	58.9	58.7	45.3	54.2
1976/77	98.8	78.8	177.6	43.6	21.3	64.9	44.1	27.0	036.5
1977/78	452.7	81.4	534.1	97.3	18.4	115.7	21.5	22.6	21.7
Total	1,088.7	294.3	1,383.0	471.4	121.5	592.9	43.3	41.3	42.9
1978/79*	23.3	2.1	25.4	0.3	..	1.3	1.3	..	1.2

Sources: People's Bank, Bank of Ceylon, Hatton National Bank Limited.
* Incomplete data, Maha season only