

## Perceived Constraints for Microfinance Accessibility of the Paddy Farmers - A Case of Anuradhapura District

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### Abstract

Inadequate access to finance by the farmers has been identified as one of the contributing factors to the paddy cultivation, value addition and distribution of the country. Microfinance is a key policy strategy to solve the financial difficulties that affect directly the paddy production. The purpose of this study was to identify and assess the problems face by the paddy farmers in using microfinance facilities for their production, processing and selling activities. Primary data were collected through a survey from a sample of 40 paddy farmers and 10 government and non government (NGO) microfinance institutions in Anuradhapura District. Potential problems faced by the lenders and borrowers were analyzed by using the student t test statistical analysis tool. The perceptions of paddy farmers towards the constraints identified were not vary with respect to their age group, education, farming experience and gender. Higher interest rates, collateral requirements, strict repayment structures and high competition were the main constraints that faced by both paddy farmers and microfinance institutions. Government and non government authorities have to make policies to remove the constraints which hinder the accessibility to microfinance facilities by paddy farmers as well as to remove the barriers face by the financial institution within sector.

**Key words:** Financial services, Microfinance, Paddy farmers

### Introduction

Sri Lanka has an agricultural based economy and agriculture sector plays a significant role by contributing 12.1% to the Gross Domestic Production (GDP) and generates 30% of the country's employment (Central Bank, 2011). More than 70 % of the total population in Sri Lanka lives in rural areas while they depend on agriculture as their livelihoods. Paddy sector of Sri Lanka has a significant concern as it is the staple food. Rice has a contribution of 1.8% to the total GDP and per capita consumption is about 100 kg per annum (Central Bank, 2011).

Many farmers who involved in paddy cultivation are suffering from poverty and cultivating with assistance of government and NGO financial institutes. Incentives and subsidies from government or loans at lower interest rate have been identified as helping hand to break the poverty cycle of poor paddy farmers (Bandara *et al.*,

2007). In 2011, Rs. 4, 298 million has been distributed as short term agricultural credit and loan term agricultural credit to the paddy farmers (Central Bank, 2011). There are two parts in the rural financial sector which are known as formal and informal rural financial sources. Only 10% of finance requirement of famers is fulfilled by formal financial market while informal financial market contributes to the rest.

Microfinance (MF) refers to small scale financial services, primarily credit and savings to the economic active low income clients by financial institutions in order to provide goods and services. Microfinance institutions are local communities that offer financial services in the form of savings and credit (Renuka and Athauda, 2010). Paddy farmers usually require finance for land preparation, purchasing of seeds and planting materials, agro chemicals, fertilizer, payments of labor, transport, storage and for their day to day expenses.

With this background, the aim of this study is to assess the main constraints for microfinance accessibility from the standpoints of both borrowers and lenders and to evaluate their perceptions.

### Materials and Methods

The primary data were collected by means of a survey, to find out the problems that the paddy farmers face with respect to access their financial facilities. Considering the fact that the highest paddy production and high mobilization of micro finance institutions, the sample was selected in Anuradhapura District. Data were collected from a sample of 40 paddy farmers selected through random sampling technique. And 10 microfinance institutions were selected from both government and non-governmental sector. The data were collected through face-to-face interviews using a pre-tested questionnaire. Rankings of the constraints were obtained and the mean rankings were calculated for the constraints that the paddy farmers perceived for accessibility to credit from financial institutions. In addition, the microfinance officers in institutions from where those paddy farmers obtained their credit facilities were also asked to indicate their rankings on the same set of constraints. With that the mean rankings were calculated and compared with respect to following three categories.

### Governance and Management

1. Vague rules, conditions and regulations
2. Not fully aware of the benefits
3. Rigid public relations
4. Too complex coordination
5. Complex documentation

### Quality of Service

6. Complex loan procedure
7. Rigid collateral requirements
8. Loan processing time is too long

9. Loan amount is not sufficient to fulfil the need
10. High interest rate
11. Re-payment system is too difficult for farmer
12. Compared to informal credits, less accessibility
13. No sufficient funds to lend for all qualifying applicants

### Customer Care and Support Services

14. No system to address the issues of lacking farming knowledge
15. Less leasing facilities
16. Less flexibility for loan repayment
17. No case-by-case approach
18. No guidance for loan usage

The data were analyzed using both descriptive and inferential statistics. The mean ranks of the constraints were calculated from the ranks given by the farmers and microfinance officers separately. The mean ranks provided by two groups were subjected to a Student-t-test to test the different of the perceiving of constraints. Probability value (p) for each value of t is calculated.

$$t = \frac{1x_1 - x_2}{\sqrt{(S_1^2/n_1 + S_2^2/n_2)}}$$

$x_1, x_2$  = Mean values of both populations

$s_1, s_2$  = Variance of both populations

$n_1, n_2$  = Sample size of each population

### Results and Discussion

Both male and female respondents stated that vague rules conditions and regulations are the main constraints when obtaining loans from government institutions. Rigid collateral requirement was the major issue under the quality of the product. No system to address the issues of lack of farming knowledge was identified under customer care and support services. In obtaining microfinance loans from non government institutions, both male and female

respondents were mentioned high interest rate was the major issue. Less flexibility in loan repayment was the next problem they faced when access to the formal credit facilities. These constraints not vary with respect to their education level, farming experience and monthly income also. Both government and non government microfinance institutions mentioned that vague rules and conditions, rigid collateral requirements and no system to address the lacking farming knowledge are the major three issues faced when granting microfinance loans to the paddy farmers.

Student t test was employed to find out the different in mean ranks provided by the farmers and the microfinance institutes. Both farmers and microfinance institutes have identified the vague rules, conditions and regulations, rigid public relations are the two major

problems in this sector. Under the quality of the product category; complex loan procedure, insufficient loan amount to fulfill the farmers need and difficulties in repayment system for farmers are mentioned by both lenders and borrowers. The major problem identified by the both two parties is no system to address the issues of lack of farming knowledge under third category. All other considered constraints were significantly different according to the perception of paddy farmers and microfinance institutions. Both paddy farmers and the institutions perceived that the vague rules and conditions, insufficient loan amount to fulfill the need and no system to address the issues are the constraints of obtaining loan schemes in non government institutions (Table 1).

**Table 1.** The outcomes of Student-t-test

Constraints	t values	
	Government	Non-Government
<b>Governance and Management</b>		
Vague rules, conditions and regulations	1.63	0.27
Not fully aware of the benefits	6.54*	4.92*
Rigid public relations	-1.04	2.40*
Too complex coordination	4.06*	1.65
Complex documentation	-9.43*	-4.76*
<b>Quality</b>		
Complex loan procedure	1.23	7.14*
Rigid collateral requirements	-4.05*	16.68*
Loan processing time is too long	0.13	2.57*
Loan amount is not sufficient to fulfil the need	0.74	-1.73
High interest rate	5.19*	-4.79*
Re-payment system is too difficult for farmer	0.97	11.43*
Compared to informal credits, less accessibility	2.27*	4.83*
No sufficient funds to lend for all qualifying applicants	3.19*	3.20*
<b>Customer care and support services</b>		
No system to address the issues of lacking farming knowledge	0.20	1.88
Less leasing facilities	7.50*	5.55*
Less flexibility for loan repayment	2.25*	6.14*
No case-by-case approach	2.97*	5.13*
No guidance for loan usage	-13.2*	5.18*

Note: \* Significant at 95% confidence interval

Lack of availability of credit facilities is one of the main problems that the majority of the paddy farmers face in Sri Lanka. Although, the paddy sector has a considerable contribution towards the country's GDP, the constraints such as higher interest rates, collateral requirements and strict repayment structures of the loans make farmers uncomfortable in obtaining the loans. Selection of the loan amount and the collateral requirement by the microfinance institute was also considered as a constraint. These constraints are mentioned by the paddy farmers as they affect them to access institutional finance. High competition and obtaining loans from different financial institutions by paddy farmers within the same period of time were mentioned mostly by the microfinance officers in the respective institutions. Therefore, it is suggested that government and non government authorities should be flexible in order to remove the constraints that paddy farmers have to access to institutional finance easily.

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