

An Evaluation of Agricultural Credit Utilization: A Case Study

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Abstract

The modern agricultural production systems are capital intensive. Access to credit is regarded as one of the key elements in raising agricultural productivity. Government has implemented a range of credit programmes for agriculture and livestock sectors. It is evident that these credit programmes are failed without making valid improvements in the process of development. Therefore this study was conducted to review the awareness of the credit programmes and utilization of credit granted for agriculture and livestock sectors. Purposive sampling technique was used to select 50 credit borrowers who repaid and 50 borrowers who defaulted loans taken from the Regional Development Bank. Primary data were collected through questionnaire during July-December 2012 period in *Buttala*. The study revealed that credit issued for maize is successful in the area. Further, it revealed that high interest rates and high transport costs are the barriers of credit borrowing. Reasons for defaulting loans are drought, *uldiya*, wild animal attacks, and pests and diseases. However, credit schemes have reduced dependency on informal credit sources and traders. Further farmers tended to reduce pawning of assets. Personal harassments have also reduced. More importantly farmers could cultivate crops according to pre-planned schedule. Moreover, the study revealed that inability to pay regular field visits after lending, rigid sanctions, limited infrastructural facilities, lack of irrigation, storage and markets are the main reasons for the failures of the credit programmes.

Keywords: Agriculture, credit, utilization

Introduction

Contribution of agriculture sector to the GDP has declined substantially from 17.2 percent in 2005 to 11.2 percent in 2011 (Department of Census and Statistics, 2011). It is a must to supply all the factors of production such as land, labor, capital and entrepreneurship for their agricultural development. However, farmers have limited financial capital for agricultural production. Government is making efforts to achieve equitable and sustainable agriculture development through providing agricultural credit on concessionary interest rates.

Agricultural development banks, commercial banks, cooperative banks are regarded as formal lenders. Beyond formal rural lenders there are many small, decentralized

semi formal and informal financial intermediaries as credit unions, farmer organizations and NGOs, money lenders, relatives and friends. However these sources limited with sufficient long term financial resources for lending. They lend for different purposes and offer credit at different terms and financial conditions. Production risks, client risks, market risks, macroeconomic and policy risks are the types of risks faced by the investors (Brigitte *et al.*, 1999).

Interest rates, transaction costs, lack of sufficient collateral, difficulties in finding guarantors, psychological barriers against banks, social proximity and limited personal understanding between creditor

and debtor are some of the barriers which may prevent potential borrowers from applying loans (Rauno, 1994). Identifying the risk of specific types of agricultural production, appraising the loan repayment capacity of loan applicants, developing mutual trust between lender and borrower are few management strategies adopted by the lenders (Schaffnit, 2010). The aims of this study is to understand the present credit schemes directed for agriculture sector and reveal the awareness and utilization of agricultural credit by the clients.

Materials and Methods

The study was carried out at *Buttala* Regional Development Bank (RDB). Four credit schemes namely; New Comprehensive Rural Credit Scheme (NCRCS) for paddy, Commercial Crop Cultivation Credit Scheme for maize, Poverty Alleviation Microfinance Project II (PAMP II) for livestock and *Abivurdhini* for livestock were used for this investigation. Fifty farmers who have repaid and 50 farmers who have defaulted credit taken from RDB were selected. Instrument of data collection was a well structured questionnaire. The field investigation was done during July-December, 2012. Data were analyzed using descriptive statistics such as frequency distributions, tables and percentages. For comparison of the performance of the credit schemes, the criteria, Non-Performing Loan (NPL) was employed. The NPL is defined as,

$$NPL = \frac{\text{Amount of defaulted loans} * 100}{\text{Total loan amount}}$$

Results and Discussion

Performance of loan schemes (2007 to 2011)

The bank has issued highest number and highest amount of loans through commercial credit scheme during last five years (Table 1). In order to compare the performance of different loan schemes, Non Performing Loan (NPL) ratio was employed. It is evident that the commercial credit scheme had lowest NPL (Table 1.)

Barriers to credit borrowing

Bank has provided credit at low interest rates between 8 percent to 12 percent, Borrowers (65%) stated that current interest rates are too high. Borrowers (56%) said that transport cost is high and also no transport facilities are available in many instances. Bank resorts to a wide range of collateral arrangements. The bank grants credit to a small group of five farmers. These group members act as guarantors for each other. Therefore 100 percent of the farmers stated that unavailability of collaterals and inability to find guarantors are not the barriers to credit borrowing. In this investigation, 30 percent of credit borrowers mentioned that untimely provision of loans is a limitation of institutional credit. Further, study revealed that only 9 percent of credit borrowers have psychological barriers against banks or unable to deal with complex procedure of a credit application. Only a 6% of farmers said that lack of close personal relationship between bank and customer is a barrier to entry into credit.

Table 1. Number and amount of total and defaulted loans (2007 to 2011)

Credit scheme	Total		Defaulted		NPL(%)
	No. of loans	Amount (Rs m)	No. of loans	Amount (Rs m)	
NCRCS	700	18.70	41	2.080	11
Commercial	818	23.80	38	1.732	8
<i>Abhivurdhini</i>	342	18.00	39	0.775	12
PAMP II	338	19.66	32	1.727	9

Reasons of defaulting loans

The credit borrowers have failed to repay the loans due to either production risk (drought, etc) or client risk (health, etc). Eighty nine percent of loans were defaulted due to production risks and 11 percent of loans were defaulted due to client risks. Both Abhivurdhini and PAMP II was defaulted due to drought and pests and diseases, Commercial credit scheme was defaulted due to uldiya and wild animal attacks and further NCRCS was defaulted due to drought, wild animal attacks, pests and diseases. Benefits of the credit schemes

Farmers (94%) stated that bank loan schemes reduced the dependency on informal credit sources. Moreover 87 percent of farmers mentioned that bank loan schemes reduced different problems encountered by the traders. Farmers (85%) were able to reduce pawning of assets. Serious personal harassments were experienced from money lenders demanding repayment of overdue loans. Borrowers (91%) said that personal harassments are reduced because of the bank credit schemes. Borrowers indicated that even though they schedule the crop calendar for their cultivation at the beginning of the season, in many instances they were unable to follow the schedule because of untimely provision of farm inputs. This limitation was reduced by the bank credit schemes (91%). Reasons for the failure of the credit schemes

Normally bank depends on guarantor made by the groups. Hence bank was unable to realize the link between loan offered and actual loan needed. Field officers only inspect the use of large scale loan. Therefore 96 percent of borrowers said that weak inspection after lending is one of the reasons for the failure of credit schemes. However, bank authority said that they experienced an insufficient number of field officers to carry out the evaluations and the progress of loan utilization.

In addition, 61 percent of borrowers said that credit schemes are failed due to rigid sanctions. Bank doesn't use illegal methods such as personal harassments to demand repayment of overdue loans. Even if they impose legal actions against defaulters, the chances of recovery of bad debts are limited.

In addition, 98 percent of the borrowers said that limited markets including price fluctuations and low prices for the products also affected for success credit schemes. However, 77 percent of farmers stated that the storage facilities are unsatisfactory. Many borrowers (57%) encountered difficulties in obtaining water resources due to problems of irrigation systems. Forty eight percent of the farmers said that transport facilities are limited. Conclusion

The study revealed that the commercial cultivation credit scheme is the most relevant and feasible credit scheme for the study area. It was also discovered that high interest rates and high transport costs are the main barriers for credit borrowing. Reasons of defaulting loans are drought, *uldiya*, wild animal attacks and pests and diseases. Benefits of institutional credit schemes include reduction of dependency on informal credit sources and traders, pawning of assets, personal harassments and, ability to execute scheduled cultivations. The study revealed that inability to make regular field visits after lending, rigid sanctions and limited infrastructural facilities are the main reasons for failure of the credit programmes. The study suggests that bank should focus lending in areas with low credit risks and then gradually expand operations to more risky areas. Acknowledgement

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