

F7 THE 'PROBLEM' OF RURAL CREDIT: FAILURE OF PROCEDURE
OR STRUCTURAL BACKWARDNESS *

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In Sri Lanka, as in some other developing countries a problem of rural credit is generally thought to be a major hindrance to agricultural advance and the efficient use of productive factors. Successive governments, in order to improve the access to institutional credit have sought to implement various rural credit schemes. The supply of rural credit even under these schemes has been relatively small, and default rates high. Thus an overwhelming portion of credit is still disbursed by private or non-institutional sources at exorbitant interest rates. The recourse to non-institutional sources of credit by the mass of small farmers while limiting the application of farm inputs depresses income and living standards in this sector.

The failure of the institutional credit schemes has in general been explained in terms of stringent and dilatory lending procedures of banks and lack of proper institutional arrangements for loan supervision and recovery. In line with this view, a change in banking procedures has been advocated in regard to rural lending. The banks it is thought must become development oriented. Thus, another loan scheme has been newly introduced with the objective of overcoming the weaknesses of earlier schemes.