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Co-operative
System and
Rural Credit
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THE CO-OPERATIVE SYSTEM
AND
RURAL CREDIT
IN
SRI LANKA

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**THE CO-OPERATIVE SYSTEM
AND
RURAL CREDIT
IN
SRI LANKA**

A STUDY UNDERTAKEN
BY
THE MARGA INSTITUTE
FOR
USAID



**MARGA INSTITUTE
P. O. Box 601, Colombo.
Sri Lanka.**

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PUBLISHER'S NOTE

“The Production War” and Rural Credit

We should remind the reader that this work was written in 1972, before the ‘production war’ was launched. For that reason, it does not comment upon or include references to the radical changes that were introduced as an accompaniment to the ‘war’.

The ‘production war’ was launched in October, 1973 with three objectives in view. There was the immediate and limited objective to tide over the serious crisis that had loomed after grain prices in the international market had risen sharply and the country unable to meet the demands upon her foreign exchange. Supplies to maintain the minimum rice rations to which the Government was committed were not to be had. The ‘production war’ was the immediate response. Secondly it was intended to reverse the serious decline in paddy production that was registered during the period 1970-1973. But most importantly, it was intended to lay the basis for a radical transformation of our agricultural production and the rural structures that supported it.

Four important elements in the strategy for prosecuting the ‘war’ were—

- (1) the adoption of a completely new credit scheme, new not only in ceilings and procedures but also in concepts;
- (2) affording a new guaranteed price for paddy at almost double the price paid earlier;
- (3) a re-organisation of the small farm co-operative structures; and
- (4) a radical overhaul of the administrative frame within which agricultural production had hitherto taken place.

The new credit scheme is titled “The Comprehensive Rural Credit Scheme”. Although it was conceived in May, 1972, it was pressed into service only in the second half of 1973. Its most distinctive element is its conceptual newness. We may set out the more important elements of the new credit scheme in the following terms:—

- (a) It conceives the credit requirements of the farmer as being much wider than his financial requirements for cultivating his crops. It sees the credit needs of the farm as encompassing a whole range of needs relating to the farm household.
- (b) It enables farmers to take loans to meet their needs all the year round and not merely immediately before the cultivating season.
- (c) It attempts to relate the farmer's savings to his credit needs so that he may be able to draw on his own surpluses to meet his needs for intermediate and working capital.
- (d) It recognises regional variations in farming patterns which justify granting different ceilings to meet varying needs in different areas.
- (e) It seeks to improve the pace of recovery of credit.
- (f) It decentralises decision making relating to loans by delegating responsibility to the local Rural Banks instead of reserving it to the Central Government.
- (g) It seeks to provide for a system of supervising credit to ensure that loans are properly used.

The new credit scheme has been in operation for only one season, and that too, not in its entirety. It is, therefore, too early to comment on its efficacy in practise. However, what we have observed immediately is that it has succeeded in injecting a large volume of credit into the rural areas for the Maha Season of 1973/74, thereby remedying the serious impairment of credit flows that had begun to manifest themselves from 1971. As an immediate consequence, paddy production has shot up to an all time high. The high water mark of paddy production in Sri Lanka was in 1969/70 when a ceiling of 77 Million bushels was reached. During 1973/74, under the "Comprehensive Credit Scheme", even though the original target of 86 million bushels may not be realised, a performance of 70 - 80 million bushels seems likely.

Certain aspects of this scheme deserve comment:-

- (a) Its chief virtue is that it recognises the totality of the farmer's credit needs. One of the principal shortcomings of the earlier credit schemes was that they failed to make allowance for the fact that to meet a vast array of needs, some of which

to the farmer were more important than paddy production, financial resources were not available. As a result, credit that was made available for agricultural production was diverted for meeting needs of a more pressing nature. This resulted in the non-application of various inputs for which the credit was sought, resulting in low productivity and continuing impoverishment. The new credit scheme rectifies this weakness by enabling the farmer to meet his other credit needs without drawing on his agricultural credit.

But the question remains as to how a wider availability of credit will help the farmer when low productivity is rooted as much in social structures and the economic system within which the farmer works as it has to do with the non-availability of credit.

(b) The move to link rural credit and savings is sound. But the scheme presumes surpluses on a scale wide enough to sustain this linkage.

(c) The allowance made for regional variations and credit needs and varying levels of credit worthiness among individual farmers has far reaching implications especially for the low-potential rain-fed paddy lands which constitute about 1/3 our total paddy producing areas.

(d) Another significant feature is the provision made for supervising credit. This is sought to be achieved by transferring responsibility for credit to a commercial bank which will be the agent of credit. One does not see how this arrangement can work efficiently, if at all. The kind of staff who are attached to commercial banks are not likely to be the best judges of farm needs and operations.

(e) Perhaps the feature of the new credit scheme which is likely to secure the most spectacular results in the short term is the immunity it affords to defaulters from the consequences of past defaulting. As a result of the non-repayment of past credit about 60% of the farmers had drifted away from the credit scheme. This had been an important determinant of low output during the 70 to 73 period. The provision to bring these defaulters back into the scheme, while repeating an all too common experience in the history of rural credit in Sri Lanka, though on a limited scale this time, has resulted in peak credit disbursements and overall production.

Even more important than the role of credit in the new drive for paddy production is the radical changes in the price structure for paddy. When this publication was being written the guaranteed price for paddy was Rs 14/- per bushel. In March, 1973, it was raised to Rs. 18/- per bushel and in October, 1973 to Rs. 25/- per bushel. The guaranteed price was raised to Rs. 25/- partly to offset the steep rise in the costs of production and partly to serve as an incentive for increased production. However, while the Government was paying Rs. 25/- per bushel, the open market price for paddy rose to Rs. 50/- per bushel. While this disparity between the open market price and the guaranteed price tended to work as a disincentive, its negative impact was not as serious as might be imagined because even at Rs. 25/- a bushel the farmer was certainly more than making up for increased costs and the margin of profit per bushel, even while selling at Rs. 25/- per bushel to the G P. S. was higher than the profit the farmer had when he sold a bushel at Rs. 14/- to Government. Consequently, while the farmer might have been indignant at the denial to him of the maximum opportunities afforded to him by market forces, production figures were bound to show a sharp increase. At the time of writing this note, according to Government statistics, the target of 56 million bushels for the Maha Season has been achieved.

A re-organisation of the co-operative structures preceded the reforms in credit schemes and pricing structures. The re-organisation was undertaken to make the local co-operative a more viable organisation and thereby to vitalize the village economy. Some of the significant features of the reorganised co-operatives are:-

- (a) Unlike the earlier Co-operative Union which covered a limited area, the present co-operative covers a large area and has been constituted mainly on the basis of the need to make it viable.
- (b) As a result, the new co-operative has a better purchasing capacity and can meet the farmers' needs more competently.
- (c) Being a larger organisation, the new co-operative has the potential to develop adequate managerial skills, to pay better salaries and to recruit better personnel.

- (d) The new co-operative is large enough to serve as a basic unit for village level planning. There is now a tendency to have a single co-operative for each D. R. O.'s division so that for planning purposes, a D. R. O.'s division and a co-operative may be congruent.

The activities of the new co-operative could be grouped under five headings:-

- (1) It will provide consumer services through its own retail outlets and through private traders who are registered with it.
- (2) It will provide all the inputs, including credit, required for agriculture and also be the marketing agency for agricultural produce.
- (3) In the industrial area the new co-operative is expected to invest in agro based industries and such industries as have a direct relevance to its consumer service.
- (4) The society will have its own banking sector called the "Co-operative rural bank" which will channel all rural sector for future needs.
- (5) It will also plan and implement a comprehensive educational programme for its membership and its staff which will include social, recreational and cultural programmes for the entire community as well.

The fourth element in the strategy for the "production war" was the attempt to radically overhaul the administrative frame within which the "war" was to be waged. Earlier production drives had been launched and managed largely by conventional executive and bureaucratic cadres. Now for the first time, the production machine came to be politicised at important points. Political command posts were set up in Colombo and at district and village levels. At the Colombo level the strategic command headquarters for prosecuting the "war" was shifted from the Ministry of Agriculture to the Prime Minister's Secretariat where a distinct ideological and political element was diluted into the programme. This was more than a mere burst of enthusiasm. For the first time, there was an attempt at a vigorous political

management of agricultural production. At the district levels, political authorities supervened over the Government Agent and his conventional apparatus. At the village levels, the local people's committees linked themselves on to the production programme. The degree of efficiency that pervaded the political intervention was inevitably not uniform. It naturally depended on the levels of consciousness of the political elements that came to be associated with the management of the production drive. An uneven performance by these cadres was to be expected. But political intervention on this scale cannot be judged merely on the basis of output. The *raison d'être* for politicisation lies beyond considerations of productivity. Before executive power was transferred at operational levels to political authorities right down the line, there had been no conscious or disciplined effort to develop their consciousness. For a multiplicity of reasons, agricultural production figures for the last cultivation season showed a sharp increase. But if this increase is going to be sustained and if the current politicisation is to be sustained, consciousness will have to be sustained equally. This requires education and discipline. It is too early to say yet whether political cadres will be trained to work alongside and with the bureaucratic cadres. If that is not done speedily and competently, the end result might be that after the initial impetus has worn out, we might be left only with a dislocated bureaucratic machine and a flagging political commitment.

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INTRODUCTION

The Credit Schemes that are described in this Study have been designed to serve the needs of peasant farmer for an agriculture which is organised principally around the cultivation of paddy. However, although the focus of the Credit Scheme has been on paddy, it has covered other subsidiary food crops which are part of peasant agriculture such as chillies, onions and potatoes. Paddy has been the major crop in small holding agriculture. It covered an extent of approximately 913,000 acres in 1946 steadily expanding to an acreage of 1,765,000 in 1970. The total number of operational holdings in 1970 has been estimated at 836,000. The small holding agriculture based on paddy was distributed throughout the Island, although it had greater importance in some regions than in others. The Agricultural Credit Schemes that are discussed therefore have a nationwide coverage.

The credit available to the small scale farmer comes from several sources. The schemes organised by the Government for the provision of credit for his agricultural activities was one. In the total credit system of the rural sector, non-institutional credit from professional and semi-professional lenders, private traders, the more prosperous farmers in the community and friends and relations, loomed large as sources of credit and accounted for a major portion of the credit obtained. This is discussed in detail later. The scheme of credit organised by the Government attempted to reduce the dependence of the farmer on non-institutional sources which are usually available on terms much less favourable than those of Government sponsored schemes and are most often, extortionate in character.

The Agricultural Credit Schemes expanded to a significant degree in the period following Independence in 1947. The main item under these schemes has been the short-term credit provided to farmers to meet their requirements of working capital for agricultural operations during the cultivation season. They were usually expected to repay the loans with the proceeds from their harvest. The volume of credit at the commencement of the Scheme was small but eventually increased to a considerable magnitude. As will be described later in the Study, the schemes underwent significant

modifications during the period 1947 to 1971. Of these major re-organisations and modifications the most important were those that were undertaken in 1963 and in 1967. It would be seen from the later sections of this Study that the re-appraisal and re-structuring of these credit schemes were necessitated mainly by the poor rate of recovery of the credit granted, and the consequent reduction in participation as defaulting farmers became ineligible for further credit. During the operation of these Government sponsored schemes, there is evidence that the large bulk of the farming community still continue to depend heavily on non-institutional sources of credit for both agricultural and non-agricultural purposes.

From the commencement, the loans under these schemes had been channelled to the farmers through Co-operative Societies of which the farmers were members. Initially there was a marked degree of specialisation in the Co-operative Movement and separate societies were organised for agricultural credit, thrift, production and sales, retail distribution and so on. These were subsequently replaced in 1957 by Multi-Purpose Co-operative Societies which undertook several functions in the farming communities. These were also the amalgamation of Primary Co-operative Societies to provide for greater efficiencies and better economies of scale implemented in 1971. Among the several functions undertaken by the Multi-Purpose Co-operatives are retail distribution of consumer goods, distribution of farm inputs such as fertilisers, seed material and agro-chemicals, purchase of farming products, rural banking and the supervision of credit under the Agricultural Credit Schemes.

Until 1963 the Agricultural Credit Schemes were administered by Government Departments which used the Co-operative Societies as the lending agencies to provide credit to the farmer. The Co-operative Societies obtained their loans from the Government and re-lent to the farmers in accordance with approved Credit Schemes. Subsequently the lending operation was taken over by the People's Bank which was a State Bank established by the Government in 1961 with the primary object of promoting banking in the Co-operative and rural sectors. In 1967 the Government made it possible for the entire commercial banking system to participate in the Agricultural Credit Schemes. A guarantee was given

by the Central Bank of Sri Lanka under which the Central Bank undertook to re-finance losses incurred by the banks up to a limit of 75%. However, this guarantee has not resulted in any increased participation by the banking system, and the People's Bank continues to be the sole commercial bank providing credit under the Agricultural Credit Schemes.

The first Government sponsored scheme for providing institutionalised agricultural credit began in 1947. The rate of participation of farmers in Agricultural Credit Schemes sponsored by Government fluctuated sharply during the period of their operation. It is difficult to make an accurate estimate of the rates of participation, but it is possible that during the peak periods credit would have reached about 35 to 45 percent of the farmers who were in need of credit. According to available data the majority of paddy cultivators operated on holdings less than two acres, although most of the paddy cultivators with holdings less than one acre would not be exclusively dependent on their paddy holdings but would have other sources of livelihood as well. However the structure of holdings draws attention to some of the major problems confronting paddy farmers. The size of the holdings was small and unless cultivated at a very high level of technology, would not bring yields that would produce a reasonable income. At the same time technological inputs to increase productivity required resources which the farmer was often unable to mobilise. Therefore he had to depend heavily on credit. Government Schemes of credit were available for specific agricultural purposes and did not cover all his needs. Consequently, farmers most often resorted to private non-institutional sources of credit which were very costly in regard to rates of interest.

The risks of cultivation in most areas were high as an assured supply of water was not often available. The risks were minimised in the case of paddy land which was served by large irrigation schemes, but in rainfed areas as well as areas served with minor irrigation works weather was a critical variable. The Government's approach to the problems in the peasant sector was to develop a package programme which provided extension services to transmit new scientific methods, establish marketing schemes with guaranteed

price for its produce, organise the supply of fertiliser, seed material, agro-chemicals and tractor services and provide agricultural credit to enable farmers to make full use of the package programme. Agricultural credit was therefore one element in the package programme. However as will be seen in the Study the scheme of agricultural credit was limited in its coverage and ran into numerous problems during its operations. Even so the Agricultural Credit Schemes during the period of peak operations augmented the resources of the farmer and enabled him to raise his technological level, which he attempted to maintain in subsequent years even when he dropped out of the government credit schemes.

**Official Exchange Rate Between U. S. Dollar
And Ceylon Rupee, 1945-1972.***

(Rupees per Dollar, End of Year)
(Selling Rate)

Year	Rate	Year	Rate
1945	3.322	1959	4.762
1946	3.315	1960	4.745
1947	3.315	1961	4.752
1948	3.315	1962	4.750
1949	4.775	1963	4.757
1950	4.775	1964	4.770
1951	4.785	1965	4.772
1952	4.762	1966	4.775
1953	4.762	1967	5.850
1954	4.795	1968	5.850
1955	4.772	1969	5.952
1956	4.800	1970	5.952
1957	4.765	1971	5.952
1958	4.760	1972	5.947

* The rupee has been officially fixed at Rs. 13.33 rupees per pound sterling since 1941; dollar-rupee rates thus fluctuate only as the dollar-sterling rate in London varies.

THE CO-OPERATIVE SYSTEM OF SMALL FARMER CREDIT IN SRI LANKA (CEYLON)

Programme Characteristics:

A. Background

I. Agricultural Patterns and Potential

The dualistic structure of Sri Lanka's economy is clearly reflected in the country's agricultural sector. Of the 4.6 million acres of agricultural land, approximately 2.3 million acres are cultivated with perennial tree crops — tea, rubber and coconut which are the country's principal exports. The major portion of these crops is managed as large scale or medium scale plantations. These agricultural activities in the plantation sector form the modern sector in agriculture. Their scale of ownership and operations, the corporate form of organisation adopted by them, methods of management that had been developed, the levels of productivity achieved, all share the characteristics of a modern commercial enterprise. There is, however, a sizable acreage cultivated with these crops which are in small holdings of which the major portion is in coconut. The ownership of these holdings is distributed among persons who are dependent mainly on agriculture for a livelihood as well as others in the middle class who have non-agricultural sources of income or employment.

However, when account is taken of these small holdings, the agriculture of the small farmers in the country, which could be regarded as being in the traditional or non-modern sector, is primarily dependent on the cultivation of paddy. The economy of the peasantry or the small farmer community is organised around this crop. In this sector, the size of holdings is small and at the lower end even becomes uneconomic. The levels of productivity are low. The technology is in the process of change from subsistence agriculture to commercial scientific farming and the production is for the domestic market. The agricultural credit schemes described in this study have principally served the peasant sector organised around the cultivation of paddy. The total acreage under paddy was estimated at 1,765,000 acres in 1970. The pattern of land use in Sri Lanka is indicated in Table I.

TABLE I
Land Use In Ceylon

				Thousand acres
Total Land Area	...	...	...	15,998
Plantation Crops:				
Tea	...	...	... 592	
Rubber	...	...	... 669	
Coconut	...	...	... 1,152	
Sugar	...	...	... <u>15</u>	
				2,428
Peasant Crops:				
Paddy	...	...	... 1,249	
Other	...	...	... <u>508</u>	
				1,757
Forest	...	...	...	8,208
Grassland	...	...	...	1,053
Other	...	...	...	2,552

Source: Department of Census and Statistics – Statistical Abstract of Ceylon, 1965; Census of Agriculture 1962; also FAO/IBRD Report on the Irrigation Programme Review, Ceylon - Appendix 2a; O.E.C.D. Studies – Agriculture in Ceylon until 1975 by P. Richards and E. Stoutjesdijk (p. 46).

The regional distribution of paddy land, which as stated earlier forms the mainstay of the peasant community, is shown in Table 2 which should be read together with the map on page 4

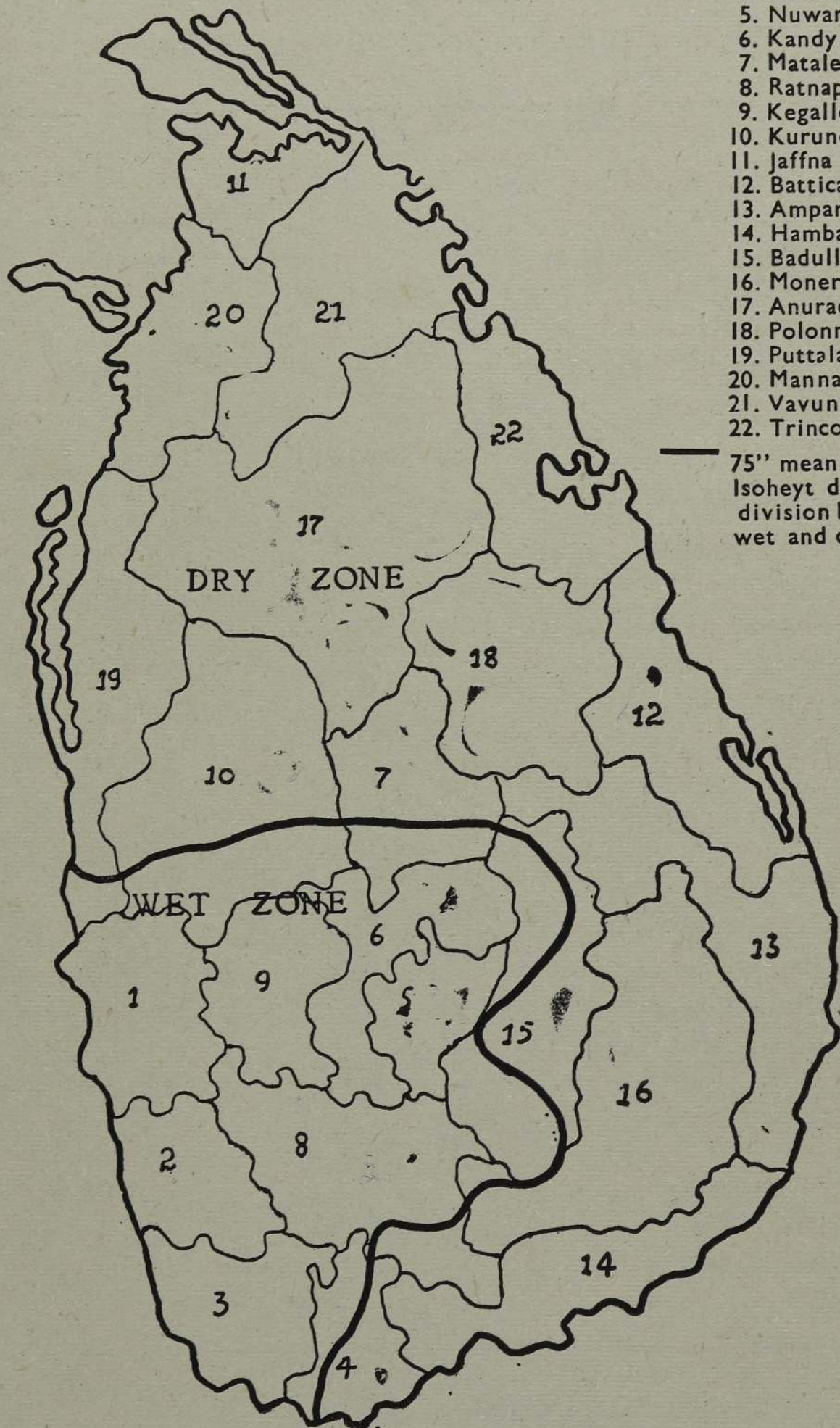
TABLE II
The Regional Distribution Of Paddy Lands-1970/71

District				Extent under cultivation for Maha and Yala (Acres)
CEYLON	...	...	...	1,793,610
Colombo	...	...	...	87,886
Kalutara	...	...	...	83,790
Kandy	...	...	...	86,440
Matale	...	...	...	41,316
Nuwara Eliya	...	...	...	29,447
Galle	...	...	...	89,744
Matara	...	...	...	90,702
Hambantota	...	...	...	70,864
Jaffna	...	...	...	90,060
Mannar	...	...	..	43,457
Vavuniya	...	...	...	53,701
Batticaloa	...	...	...	103,892
Amparai	...	...	...	142,269
Trincomalee	..	...	...	55,861
Anuradhapura	...	...	...	165,055
Polonnaruwa	...	...	...	109,210
Kurunegala	...	...	...	224,721
Puttalam	...	...	...	34,551
Badulla	...	...	...	43,088
Moneragala	...	...	...	23,840
Ratnapura	...	...	...	74,008
Kegalla	...	...	...	49,708

Source: Department of Census and Statistics.

- 1. Colombo
- 2. Kalutara
- 3. Galle
- 4. Matara
- 5. Nuwara Eliya
- 6. Kandy
- 7. Matale
- 8. Ratnapura
- 9. Kegalle
- 10. Kurunegala
- 11. Jaffna
- 12. Batticaloa
- 13. Amparai
- 14. Hambantota
- 15. Badulla
- 16. Moneragala
- 17. Anuradhapura
- 18. Polonnaruwa
- 19. Puttalam
- 20. Mannar
- 21. Vavuniya
- 22. Trincomalee

— 75" mean annual
Isoheyt denotes
division between
wet and dry zones.



While paddy is the major crop of the peasant farmer, there are other components in the peasant agriculture which need be mentioned to complete the picture. One region in the country, the Northern limestone belt, has developed a different pattern of small-holding agriculture based on intensive dry farming with such crops as chillies, onions, potatoes, and vegetables. In this pattern of agriculture, paddy is relatively unimportant. In selected parts of the country, peasants have been persuaded to take to the cultivation of tobacco through the efforts of the Ceylon Tobacco Co and a small community of prosperous farmers has been developed around this crop. In peasant farming based on paddy, the pattern of agriculture combines the traditional cultivation of paddy on permanent irrigated or rain-fed holdings together with shifting cultivation in the forestland surrounding the permanent village settlement. This type of farming was based on rain-fed highland crops such as Indian corn, chillies, vegetables etc. and still continues to form part of peasant farming. Such shifting cultivation, however, is characterised by the wasteful use of land and low levels of productivity.

In the 1960s the Government's efforts at development of peasant agriculture were directed, among other things, at the systematic diversification of peasant farming with cropping patterns which would have weaned the farmer from dependance on a single crop — paddy. The Government's import policies which led to the restriction or ban on the imports of a range of subsidiary food items, resulted in attractive prices for crops such as chillies, onions, potatoes and pulses. These efforts at the diversification of peasant farming are beginning to take effect.

In Sri Lanka the paddy crop is normally cultivated in two seasons which are known as the Maha (major) and Yala (minor) seasons. These two seasons differ in different parts of the country depending on the agro-climatic zones. The country falls into two major agro-climatic zones — the wet zone and the dry zone. Out of the total area of 16.2 million acres, approximately one-third falls into the wet zone and the balance into the dry zone (vide map). In the dry zone the Maha, which is the major season, begins by October. The sowing takes place at this time of the year and the crop is

harvested from February of the following year. The Yala seasons in the dry zone begins by March and the crop is harvested in July or August of the same year. Districtwise differences in the season are given below:

Maha	Yala	Districts
July to February	March to June	Colombo, Kalutara, Galle, Matara, Ratnapura, Kandy, Kurunegala, Puttalam, Kegalle.
November to May	June to October	Badulla.
September to February	March to August	Hambantota, Mannar, Vavuniya, Batticaloa, Amparai, Trincomalee, Anuradhapura, Polonnaruwa, Moneragala.

It is only in areas with an assured supply of water for both seasons that double cropping of paddy lands is carried on. These areas fall into the wet zone with an average rainfall of 100 to 200 inches, with a satisfactory distribution during the year, and parts of the larger areas served by major irrigation reservoirs which are capable of supplying water needed for paddy cultivation during both seasons. In the dry zone of Sri Lanka, that is the Northern, Northwestern and Eastern parts, irrigation from reservoirs is required for paddy during both seasons. In the Maha season it has to supplement an average rainfall of 30 to 40 inches and in the Yala season it has to supply almost the entire water requirements.

By the year 1946 approximately 70% of the total land area in the wet zone was under agricultural use. The higher population density in this area has carried approximately 85% of the population. In sharp contrast to the agricultural and demographic characteristics of the wet zone, only 11% of the total land area of the country was in agricultural use in 1946. With the pressure of population in the wet zone and the potential for new land development in the dry zone

there has been a significant movement of population from the wet zone to the dry zone. Up to the Maha season of 1970/71 approximately 669,715 acres of paddy land have been developed under several irrigation schemes which were implemented by the government. Two of the River Valley Development Schemes undertaken by the government were Gal Oya in the Eastern part of the country and Uda Walawe in the Southern region of the country. Over a long period, the agriculture in these colonisation schemes on which much investments have been made, were not significantly different from the rest of the peasant farming. The methods of cultivation and the levels of productivity were, if at all, only marginally better than those of the traditional subsistence farming. However, in the sixties, the government's extension efforts and the development that formed part of the green revolution were more effective in the new agricultural settlements where agricultural holdings were of an economic size and an assured supply of water was available.

The potential of small holding agriculture is two-fold. First, there is considerable scope for increasing the level of productivity, diversifying the cropping pattern, modernising agricultural activities and substantially increasing farm incomes in already cultivated land. Second, there are large tracts of undeveloped land in the dry zone which are available for agricultural use with adequate investment in the infrastructure including irrigation. The total area still available for agricultural use has been estimated at around 3 million acres. A major River Valley Development Scheme based on the water resources of the largest river in the country, the Mahaveli, plans to bring approximately 600,000 acres of new land under irrigated cultivation and supplement the water supply for another 300,000 acres of land already cultivated, which is not being utilised to the maximum on account of the shortage of water. The future development of peasant agriculture will, however, require greater diversification in cropping. By 1976 the country hopes to achieve self-sufficiency in rice. The potential for import substitution in paddy would, therefore, have been exhausted by 1976 and the cropping pattern for new land that would be brought under cultivation would have to give increasing importance to other crops. The possibilities for import substitution in other crops are considerable. Subsidiary foodstuffs such as chillies, onions and pulses have been imported into the country in large quantities. A programme of import substitution in these crops is in progress.

Although the major industrial programme is being implemented to achieve self sufficiency in textiles, the local production of cotton has been negligible. Substantial extents of land in the dry zone are agro-climatically suited for the cultivation of cotton under irrigated conditions. Approximately 95% of the sugar consumed locally is being imported. There is, therefore, substantial scope for the cultivation of sugar cane. Other crops which are part of the Five Year Plan for the agricultural sector, include soya bean, cassava, sunhemp, castor and cashew.

As agriculture has shown steady progress during the last two decades, levels of productivity have increased both in regard to land and labour. Crop intensity in paddy for the whole Island has increased approximately from 1.08 in 1953 to approximately 1.27 in 1970. High yields and high rates of production increases have been recorded in the thickly populated hill country, in parts of the wet zone, and certain districts in the dry zone. The yield per acre increased from 19 bushels per acre in 1946 to 44 bushels per acre in 1970. The production per unit of employment increased from 58 bushels in 1953 to 116 bushels in 1970. The increases in productivity of paddy were due to a combination of several factors. With the extension efforts of the Government, farmers became more receptive to improve agricultural practices such as application of fertiliser, weedicides, transplanting etc. The research on paddy developed new varieties such as H4, H8 and BG 11-11, which increased the yields of the paddy crop. Expansion and improvement of the irrigation system assured a better supply of water and increased the cropping intensity. The Guaranteed Price Scheme which was in operation from 1944 together with the marketing arrangements for the government purchases of paddy, provided the farmer with a relatively stable market for it. Paddy, therefore, was one of the growth sectors in the economy during the period 1950 to 1970. It figured prominently in the programme of import substitution. In the 60s when the country moved into a serious foreign exchange crisis, the performance of the small farming community had a critical influence on the management of the foreign exchange budget and the economy as a whole. The steady improvement of the small scale peasant sector in the economy of the country was a significant development in the 60s. It impelled the peasant or domestic agricultural sector into the centre of the economic scene and to that extent helped in reducing the dualism in the structure of the economy that prevailed in the past.

2. Profile of Farm Community

As described in the previous section, there are regional variations in the agriculture of the small farmer community depending on agro-climatic factors and the cropping patterns appropriate to them.

In the wet zone approximately 4.2 percent of tea, 43 percent of rubber and 66 percent of coconut is cultivated in small holdings below 25 acres. In the wet zone the peasant farming based on small holdings exists along side the large-scale plantation agriculture. This is particularly applicable to coconut and rubber as well as tea grown in the southern parts of Sri Lanka at low elevations. In regard to tea grown in the hill country, the tea plantation covers very large areas of land in single contiguous extents and within such areas peasant communities based on small-holder farming would be few and far between.

In contrast, almost the entire dry zone consists of small holdings owned by small farmers. The few exceptions are certain hereditary holdings under feudal forms of ownership such as land belonging to temples which though owned in large scale holdings are yet operated by tenants in small lots. These however do not constitute a significant proportion of the agricultural land. A typical holding in paddy in Sri Lanka is less than $2\frac{1}{2}$ acres in extent. A feature of these holdings is their undivided ownership and fragmentation. While some cultivation is done on a tenancy or share cropping basis, the farm size differs very widely and there is no homogeneity in the size of holding in different parts of the country. Table 3 depicts the number of paddy lands classified according to tenure and size of holding¹ as at the end of 1969. It contains data relating to the farm size, number of owner operators, owners hiring labour and owners who had their lands cultivated on a crop sharing basis known as "ande" cultivation. Table 4 summarises the distribution of the total number of owners and operators of paddy land according to size class as at the end of 1969.

1. An agricultural holding as defined in the Census of Agriculture, 1962, is the operational holding - the basic unit of enumeration at the Census. "All land which was used wholly or partly for agricultural production and formed a single technical and economic unit, operated or managed by one person alone, or with the assistance of others, without regard to title, size or location was enumerated as one agricultural holding."

This Table indicates that 65.1 percent of the operators hold land less than one acre. The percentage increased to 72.2 percent for holdings less than two acres. 96.9 percent of the total number of operators had holdings less than five acres. This signifies the preponderance of small holdings and the importance of the small peasant farmer in the traditional agricultural sector. It should be noted that "operator" is not synonymous with 'owner'. However, from the patterns of ownership that are observed it could be presumed that operational holdings below five acres generally belong to one owner. On this basis approximately 97 percent of the operators with holdings less than five acres had 76 percent of the land area while 3.1 percent of them had 24 percent of the land area. The large majority of paddy farmers were owner operators, and the extent of paddy land cultivated by this group of farmers amounted to approximately 75% of the total extent of paddy. The figures presented in Table 4 indicate the degree of fragmentation of land in this sector. Approximately 34% of the operators held land in extents of less than $\frac{1}{2}$ an acre. However the structure of holdings has been relatively stable during the last two decades, and there has been no progressive or increasing fragmentation of land. In several districts various modes of joint ownership were in operation and helped to retain the size of the operational holding. Under these systems, rights of cultivation were rotated among several owners, each of whom enjoyed the benefits of his ownership once in a number of years, depending on the number of owners.

The major tenurial reform implemented by the government was the Paddy Lands Act of 1958. This act was primarily concerned with regulating the relationship between tenant cultivator and landlords. It was designed to afford a greater measure of security to the tenant as well as create an institutional framework which would enable cultivators to organise themselves in Cultivation Committees and manage various aspects of paddy cultivation. Among other changes introduced into the paddy sector, it vested in a tenant cultivator the right of undisturbed occupation of the holding he cultivated provided he maintained a satisfactory standard of cultivation and paid the stipulated rent which was normally 25 percent of the crop.

The beneficiaries of the government sponsored agricultural credit schemes which are described in the study were mainly the paddy cultivators. The Scheme covered other subsidiary products as well; the farmers in the North of Sri Lanka whose agriculture consisted mainly of highland farming based on these crops, participated in the scheme. But the major share of the credit was utilised for paddy cultivation. It is difficult to make an accurate estimate of the extent of participation in the government sponsored schemes with the data available. There is evidence that farmers continued to rely heavily on non-institutional sources of credit for both agricultural and non-agricultural needs. These aspects will be discussed later in the study. At this point it might be mentioned that access to the institutional credit schemes was generally available to all small farmers. The co-operative network through which the credit was channelled, effectively covered the entire Island and the farmers through their co-operative societies, could apply for and obtain credit, provided they satisfied the criteria of eligibility that were stipulated.

There were no credit schemes which covered the small holders in the plantation crops. One other crop which enjoyed a well-organised scheme of credit was tobacco. The cultivation of this crop was organised by private sector enterprise — the Ceylon Tobacco Company, a firm manufacturing cigarettes, which supervised the small holders and supported them with a “package-programme” which included credit.

3. Historical Summary

(a) Management of Agricultural Credit from 1947 to 1970

Government action for the provision of institutionalised agricultural credit began in 1947. The Government formulated a plan in 1947 to establish Co-operative Agricultural Production and Sales Societies (commonly known as CAPS Societies). The scheme organised societies of agricultural producers, for the purpose of granting loans for agricultural production, the supply of manure, seed, chemicals and various other agricultural inputs, and the marketing of the produce under a guaranteed price scheme.

These societies were financed by the government through the Department of Land Development, and the risks of default were borne by the government. In each district there was a District Agricultural Committee headed by the Government Agent, of which the Assistant Registrar of Co-operative Societies was a member. A food production programme was prepared for the area under each CAPS Society and after approval by the District Agricultural Committee, it became the basis on which the society was to be financed. Loan applications were recommended by the District Agricultural Committee and the Registrar of Co-operative Societies, before they were sent up to the Department of Land Development.

At this stage, the Credit Scheme consisted of two types of credit — farm credit to farmers as well as marketing credit to the co-operative societies. The farm credit provided during this period included both short-term credit to meet the working capital needs of the agricultural operations as well as medium-term credit for acquisition of capital assets such as agricultural implements and machinery. Under the scheme of marketing loans to co-operative societies, short-term loans were granted for working capital for their marketing activities. This scheme also made provision for long-term capital loans for co-operative societies for capital items such as the construction of godowns and stores for both consumer needs as well as agricultural inputs.

Up to 1952, the Scheme was administered by the land Commissioner, using co-operative societies as credit agencies at the village level. During the period 1947 to 1952, the Land Commissioner had disbursed Rs. 29.7 million as loans out of which a sum of Rs. 9.9 million or 33.3% was outstanding by the end of 1952. The data available does not indicate the actual amount in default.

In 1952, the Agricultural Credit Scheme became the responsibility of the Department of Food Production. In the first year of administration of the scheme by this Department, the quantum of loans granted almost doubled over that of the previous year. In 1957 the management of the scheme was handed over to the Department of Agrarian Services which replaced the Department of Food Production. At that time, loan disbursements under the scheme since its inception was Rs. 112.2 million, the amount outstanding was Rs. 19.4 million and the amount in default was 6.5 million. The defaults were only 5% of the total disbursements.

The credit scheme under the management of the Department of Food Production, at least as far as the recoveries go, did admirably well, when compared with the performance in later years. During this period there was also an almost steady increase in the annual volume of loans granted. Considering the period before the introduction of the new Agricultural Credit Scheme in 1967, the highest annual volume of credit was granted in 1956/57, the last years of operation of the credit scheme under the Department of Food Production.

With the management of the credit scheme by the Department of Agrarian Services the annual volume of credit started to decline and in 1962/63 it was half of the 1956/57 volume. Further, by 1962/63 the rate of default had reached a new high of 9.4% of the total disbursement. According to the estimates derived from a survey² conducted in 1962 by the Department of Census and Statistics and the Department of Agrarian Services, one-third of the Co-operative Societies were heavy defaulters on loans and as such were ineligible for credit under the scheme. The volume of credit was decreasing due to increasing defaults. The situation was so serious that the Ministry of Agriculture, Food and Co-operatives feared that its scheme to accelerate the adoption of improved practices which needed increased inputs and therefore better credit facilities, was in serious jeopardy. In 1963, the Ministry appointed a committee to examine the functioning of the scheme. The committee looked into the problem of expanding credit and the associated problem of defaults. Based on its recommendations the annual volume of agricultural credit was increased. However, no action was taken to implement the committee's proposals regarding the recovery of loans. The outcome of this scheme, in the words of a subsequent committee, was as follows:

"The percentage of overdue loans has increased from about 9 percent on 30. 9. 63 to 11.4 percent one year later and to 15.8 percent on 30. 9. 69. In the absence of effective measures to ensure the recovery of loans granted, the number of cultivators on whose behalf applications were received from Co-operative Societies during the Maha 1964/65 and Yala 1965 cultivation seasons, even in areas which were not affected by drought,

2 Survey of Coverage by Co-operative Societies reported in the Administration Report of the Commissioner of Agrarian Services for 1962/63.

was less than the corresponding number received during Maha 1963/64 and Yala 1964. During the year 1964/65 the total number of societies which received loans from the Department was only 1,401, although during the same year the number of societies which functioned as purchasing agents under the Guaranteed Price Scheme was about three times that number.'³

As a result of the report of this Committee, the government decided to reorganise the existing schemes and establish one credit scheme which was to be administered separately from other credit schemes so as to serve agricultural purposes exclusively. This scheme was put into operation in 1967 and has been referred to as the new Agricultural Credit Scheme. It will be so described in the rest of the report. In order to make this scheme as effective as possible and ensure a high rate of participation by farmers, the government decided to give a waiver of debts to farmers and co-operative societies which had previously defaulted in their loan repayment. The detailed manner in which this scheme operated will be commented upon in later sections of this report. As a result of this waiver of their debts after the introduction of the new Scheme, most farmers and co-operative societies became eligible for agricultural credit again.

At present credit is provided under three separate Schemes:

- (a) The extended credit scheme which was inaugurated in 1963 by the People's Bank,
- (b) The Rural Bank Scheme which was inaugurated by the People's Bank in 1964. Multi-Purpose Co-operative Societies, each with a membership of about 300 and having a good record of loan repayment were generally selected by the People's Bank on the recommendations of the Co-operative Department as societies that were suitable for the opening of a Rural Bank within that society. "Rural Bank" is the name given to the Loans and Savings Department of a Multi-purpose Co-operative Society;

3. The Report of the Committee on Agricultural Credit submitted to the Minister of Agriculture and Food on 11. 6. 1966; unpublished document.

- (c) The new Agricultural Credit Scheme which was introduced by the Government in 1967.

All three schemes are operated at village level, through Co-operative Societies and these cover the entire Island.

The People's Bank which was established in July 1961, is the chief financing agency for the co-operatives which operate these credit schemes. The People's Bank provides credit facilities to the co-operative societies for the purchase of consumer goods, purchase of agricultural produce under the Guaranteed Price Scheme, purchase of agricultural inputs to meet production requirements of the farmers and credit for agricultural purposes.

In addition to credit given under these three Schemes, the rural sector obtains a certain amount of credit from the Bank Branch network, specialised credit institutions and credit schemes operated by Government Departments for specific purposes and also from non-institutional sources.

The picture relating to rural credit will not be complete without mention of a recent development. In 1971, the government established a new institution to co-ordinate and promote development activity at the village level – the Divisional Development Council. This Council consisted of representatives of the main village institutions (such as the Local Government Authority at the village level, the Co-operative Society, the Rural Development Society and the Cultivation Committee) together with the government officials of the different development agencies working at the village level. These Councils were expected to formulate village development plans, monitor the implementation of government programmes, identify small-scale investment opportunities in their areas and promote small scale enterprise on a co-operative basis. Approximately 500 such Councils have been formed and numerous small projects in the agricultural and Industrial sectors have been formulated and submitted to the government for financing. The government has implemented a scheme of financing by which part of the capital cost of these projects is given as an outright grant, and part as a repayable loan through the People's Bank. The projects are being implemented primarily through the multi-purpose co-operative societies or through special

co-operative societies established for their implementation and management. This is the first occasion on which credit has been channelled into the rural sector for capital development on such a significant scale. Up to date the majority of projects initiated under this scheme are in the agricultural sector; these include development of land for cultivation of subsidiary food crops, lift irrigation for similar purposes, animal husbandry projects etc. A sizable number of small industrial and infrastructural projects are also being implemented. The beneficiaries of these schemes are primarily the educated unemployed youth in the rural sector. While this programme is being briefly described here to provide an overview of the flow of credit to the rural sector, it will not be included as a part of the small farmer credit system which is analysed and evaluated in this study. The scope of the Divisional Development Council programme extends beyond that of agricultural credit to the farming community already employed in agriculture. Its primary objective is that of creation of new employment opportunities in agriculture, industry and other economic activities in the rural sector with a view to absorbing the educated unemployed youth in productive employment in the rural sector.

(b) The Co-operative Movement

As the Co-operative Society is the agency through which the credit schemes function, a short account of the development of the Co-operative Movement in Sri Lanka will be apposite to the study.

The history of the Co-operative Movement in Sri Lanka can be divided into four broad periods: (a) Period prior to 1947, (b) From 1947 to 1957; (c) From 1957 to 1967, and (d) From 1967 onwards.

The period prior to 1947

Co-operative Societies have been in existence from 1911. In the early stages these societies functioned mainly as Rural Credit Societies. Their resources were limited and they were not capable of meeting the needs of agricultural credit. These societies were established under the Ceylon Co-operative Societies Ordinance of 1911 on a recommendation made by the Agricultural Banks Committee of 1909. They conformed to the Raiffeisen type of co-operative

credit society. Their chief characteristics were unlimited liability, small areas of operation, very small shares, no dividends, accumulation of capital by means of a reserve. Their transactions with members were limited to those who were able to produce proper security. In these early stages there was little or no government intervention in providing credit and the interest of the government was confined to registration and audit. In 1913, the Director of Agriculture was appointed as Registrar of Co-operatives. After the constitutional reforms that took place, the Legislative Council which was existing at this time was replaced by the State Council in June 1931. Under the State Council, Co-operatives were assigned to the Executive Committee dealing with Agriculture and Lands. In 1930, a separate Co-operative Department was formed. These societies catered to less than 10% of small farmers. As revealed by the data on rural indebtedness, in 1951, they still accounted for only about 7.4% of the rural indebtedness, in spite of substantial government intervention in providing credit after 1947.

Prior to 1942, apart from the Raiffeisen type, there were two other types of credit societies: (a) the credit societies of limited liability known as urban banks, and (b) the co-operative thrift societies which granted loans to members up to 75% of their own savings. These societies could borrow from the local loan and development funds which were established under the Local Loans and Development Fund Ordinance of 1916.

The first step towards financial freedom of the co-operatives was taken when the Co-operative Central Bank of Jaffna was registered in 1926 and this bank undertook the financing of credit societies in the Northern region. Other co-operative central banks followed in Colombo and Kandy. The Commissioners of the Local Loans and Development Fund continued to grant loans to credit societies which did not fall within the areas of central banks and banking unions.

TABLE V

Progress Of The Co-operative Movement. 1926-1942

Year	No. of Credit Societies Unlimited	No. of Credit Societies Limited	No of Thrift and Savings Societies	Total Number of Credit and Thrift Societies (2) + (3) + (4)	Total Number of Societies including other types	Total Membership	Total Working Capital
(1)	(2)	(3)	(4)	(5)	(6)	(7)	Rs '000 (8)
1926	288	27	N. A.	315	315	41,164	N. A.
1927	281	22	N. A.	303	303	35,112	N. A.
1928	338	22	N. A.	360	360	33,057	N. A.
1929	366	17	N. A.	383	383	27,970	N. A.
1930	423	36	N. A.	459	459	22,416	N. A.
1931	513	28	18	559	600	24,068	1,859.1
1932	589	19	22	630	655	24,415	2,175.7
1933	680	23	29	732	779	26,719	2,213.8
1934	735	29	48	812	897	30,277	2,307.3
1935	854	27	60	941	1,005	35,358	2,814.1
1936	847	27	71	945	1,008	39,055	3,236.9
1937	930	41	70	1,041	1,117	46,040	4,035.7
1938	1,051	58	96	1,205	1,299	55,726	4,519.6
1939	1,201	78	104	1,383	1,512	66,397	4,738.6
1940	1,302	93	119	1,514	1,659	71,929	5,158.0
1941	1,431	97	149	1,677	1,852	80,743	6,087.8
1942	1,519	103	164	1,786	2,036	91,988	6,988.8

Source: Co-operative Commission Report, 1968.

In 1942 as a consequence of the War situation, rationing was introduced on rice and flour. But other foodstuffs continued to be in short supply resulting in numerous problems of distribution. The government considered that the most effective machinery for an equitable distribution of foodstuffs in a situation of scarcity was through a nation-wide network of Consumer Co-operative Societies. These were voluntary societies with government support. In 1942 there were 38 such societies and by 1945 these increased to 4,004.

TABLE VI
Growth Of Consumer Stores Societies
From 1941/42 To 1944/45

Year	No. of Societies	No. of Members	Sales Turnover Rs'
1941/42	38	17,500	1.3 million
1942/43	845	239,313	3.7 „
1943/44	3,627	826,814	44.7 „
1944/45	4,004	1,010,575	119.3 „

Source: Report of the Co-operative Commission,

The highlights of this period were -

- (i) the establishment of the Raiffeisen system of rural credit;
- (ii) the development of urban credit societies and thrift societies;
- (iii) the establishment of co-operative central banks and banking unions;
- (iv) the establishment of the consumer co-operative societies;
- (v) the establishment of supervising unions, the Northern Division Co-operative Federation, the Supervision and Audit Fund and creation and training of a non-government supervisory cadre in anticipation of the day when the movement would undertake its own promotional, supervisory and educational functions;
- (vi) the beginning of consumer agricultural marketing societies;
- (vii) creation of a tradition of co-operative education of members and the training of departmental staff.

Period 1947 to 1957

During the second world war years there had been societies called the Agricultural Produce and Sales Societies set up on government initiative. These societies functioned as wartime agencies for the purchase of local produce under the Internal Purchase Scheme. At the end of 1946/47, a committee appointed by the government presented a programme of development which was referred to as the Post-War Development Proposals, and the authors of this document, commenting on agricultural indebtedness, stated:

“The chronic state of indebtedness the average peasant cultivator finds himself in, is a serious impediment to the development of agriculture and the growth of a sound village economy. Considerable progress has been made in the past in the establishment of rural co-operative societies. There remains, however, the problem of the chronically indebted, who would not be admitted to a co-operative society requiring the unlimited liability of all members. This question which is one of great difficulty requires the close attention of Government ”

In 1947 the Agricultural Produce and Sales Societies were converted into Co-operative Agricultural Production and Sales Societies the primary purpose of which was to help the Government Food Production Drive.

The Government was prepared to give loans to farmers at low interest through these societies. In 1957 there were about 2,126 Co-operative Agricultural Production and Sales Societies with a total membership of 240,000. However this membership accounted for about only 1/5th of the cultivator population. These societies covered very large areas with the result that they served only those members in and around their headquarters. The volume of credit given by these societies is given in the Table apposite.

TABLE VII
Loans Given By The Co-operative Agricultural
Production And Sales Societies From 1947 To 1957

Year	Loans Granted Rs.	Recoveries Rs.	Balance Outstanding Rs.	Loans Rs.
1947/48	4,356,000	2,544,000	1,812,000	N. A.
1948/49	5,563,000	2,040,000	5,335,000	N. A.
1949/50	4,247,000	3,654,000	5,924,000	N. A.
1950/51	6,695,000	4,147,000	8,472,000	N. A.
1951/52	8,836,000	7,420,000	9,888,000	N. A.
1952/53	15,864,000	7,428,000	18,324,000	N. A.
1953/54	11,709,000	11,305,000	18,728,000	N. A.
1954/55	14,674,000	15,030,000	18,372,000	5,940,000
1955/56	18,370,000	17,512,000	19,230,000	4,460,000
1956/57	21,934,000	21,787,000	19,377,000	6,488,000

Source: Co-operative Department

The Government used these societies for channelling the different types of loans described earlier.

At the beginning of 1957, the Co-operative Movement had expanded rapidly and included various types of co-operative societies. In the description given above, the types of societies referred to are only the agricultural production and sales societies, the consumer co-operative societies and the co-operative credit societies. The co-operative form of organisation was also adopted for various industrial activities. These societies were formed among fishermen, weavers, craftsmen and other producer groups. The growth of the co-operative movement (which includes all types of societies) up to 1957, is indicated in the Table on page 22.

TABLE VIII
Growth Of Primary Societies
1947-1957

Year	No. of Societies	Membership	Share Capital Rs '000	Working Capital Rs.'000	Turnover
1947	6,283	1,148,165	10,913.3	25,112.7	109,502.2
1951	7,005	1,173,066	12,732.2	41,569.0	198,749.0
1957	10,539	1,315,555	24,074.7	98,853.0	368,000.0

Source: Co-operative Commission Report, 1968.

The expansion of the consumer co-operatives mentioned earlier resulted in increased business for the co-operative banks. As a result these banks increased in their number and size and by the end of 1957 there were eleven such Provincial and District Co-operative Banks.

TABLE IX
Growth Of Provincial And District
Co-operative Banks
1947-57

Year	Number of Societies	Membership	Share Capital Rs'000	Working Capital Rs'000	Turnover Rs'000
1947	4	2,508	395.0	4,882.9	88,620.4
1951	9	4,462	364.3	14,775.0	123,719.0
1957	12	6,243	961.9	28,605.0	376,000 0

Source: Co-operative Commission Report, 1968

In 1949 the Co-operative Wholesale Establishment was established as a public Corporation, to assist and help the consumer societies to obtain their supplies. It had its origin in 1943 as a section of the Co-operative Department when the consumer societies also came into existence. In 1945 it was a separate department, till it was transformed into a corporation in 1949.

The Period 1957 to 1967

In 1957 the Government undertook a major reorganisation of the Co-operative Movement with the intention of assigning to it a more active role in the tasks of national development. With this end in view, a number of Consumer and Co-operative Agricultural Produce and Sales Societies were amalgamated into Multi-purpose Co-operative Societies undertaking a variety of functions. The Multi-purpose co-operative society became the main co operative organisation and rapidly absorbed the other co-operative organisations within the area in which it functioned. At the same time, however, there were instances where specialised societies such as C. A. P. & S. Societies, consumer societies, as well as other industrial societies continued to function separately. In 1964 there were 5,101 Multi-Purpose Co-operative Societies with a membership of 785,726 persons. In the same year there were 585 Co-operative Agricultural Produce and Sales Societies with a membership of 57,355 persons. According to the scheme every village was to have its own Multi-purpose Co-operative Society which could provide credit for production and the purchase of consumer goods and repayment of previous debts, but this was modified to provide one M. P. C. S. for a group of 3 or 4 villages

The following Table shows the changes that took place in the number and the structure of the Co-operative Societies. it could be seen that with the formation of the M. P. C. S. the number of consumer and C. A. P. & S. Societies show a decline over the years due to amalgamation.

TABLE X

Effect Of Formation Of MPC Societies On
Consumer And C. A. P. S. Societies

	1957	1958	1959	1960	1961	1962	1963	1964	1965
No. of Multi-purpose Societies	68	3,897	4,631	4,741	4,824	4,889	4,950	5,101	5,053
No. of Consumer Stores Societies	2,569	1,260	1,043	964	918	889	838	786	755
No. of C. A. P. S. Societies	2,126	1,667	1,702	474	486	593	603	585	589

The finances necessary for the consumer co-operative societies came from within these societies themselves. This, along with the increase in the number of credit societies, resulted in the increase of business for Co-operative Banks. By 1959, the old Co-operative Central Banks changed their name to Co-operative Provincial Banks, when each Province was made an area of a Co-operative Bank. The Co-operative Federal Bank which was established in 1949 became the apex Bank of the co-operative movement and the other co-operative provincial banks were eligible to hold shares in this Bank. The Co-operative Federal Bank was recognised under the Ceylon Monetary Act as a commercial bank and was a member of the Colombo Clearing House.

Commenting on the Co-operatives in Sri Lanka, the report of the Royal Commission on the Co-operative Movement of 1968 says,

“Reviewing the Co-operative Movement in Sri Lanka, of the past 60 years brings into focus one fact above all. Government acting in the earlier period as trustee and guardian ended in the firm control of what was intended to be a voluntary movement. This complete reversal of roles was brought about partly by forces and trends of which the government had little or no control, partly

as a result of moves made by government and its officers, and partly by the default of co-operatives themselves. Co-operatives have now become the hand-maid of the State and Co-operative Societies are virtually agencies directed to carry out government policies."

The People's Bank came into existence as a result of a proposal made by the Minister in charge of Co-operatives to form a Co-operative Bank in 1956. There was considerable controversy over this Bank in the political field and finally it came into existence in 1961 under the name of the People's Bank. The Co-operative Federal Bank was compulsorily absorbed into the People's Bank whilst ten other Co-operative Banks at the Provincial and District levels were also merged. In 1963 the People's Bank inaugurated the extended credit scheme and the Rural Bank Scheme in 1964. Prior to this credit was offered to the Co-operative Societies by Co-operative Banks.

During the period 1957-1967 the major changes that have taken place could be summarised as follows:

- (i) The introduction of the multi-purpose co-operative society as the principal type of society, and the conversion of the co-operative stores societies and C. A. P. S. Societies into multi-purpose societies.
- (ii) The reorganisation of the co-operative banking structure by the establishment of the People's Bank and the merger of eleven co-operative banks, including the Co-operative Federal Bank.
- (iii) The transformation of the Co-operative Wholesale Establishment (which was earlier engaged in procuring and supplying goods for the co-operative stores) to carry on business as exporter and importer and also as wholesaler and retailer in goods of all description without restriction. Thus it became a state-trading organisation in addition to serving the co-operative movement.

- (iv) The formation of a number of national level business organisations such as the Ceylon Co-operative Industries Union in 1964, the Ceylon Co-operative Consumers' Union in 1965, the All-Ceylon Rubber Production and Sales Co-operative Union in 1967 etc.
- (v) The continued existence of the Co-operative Federation of Ceylon and the District Unions with somewhat marginal activities in the spheres of co-operative education and publicity.

From 1967 onwards:

The Co-operative Societies continued to be the agents for the granting of loans for paddy production and for production of approved subsidiary crops such as onions, chillies and potatoes. Over 95% of the loans are short term (less than one year) while medium and long-term loans continue to be made by the Department of Agrarian Services. At the end of the sixties the co-operative movement was structured at three levels. At the primary level there were 5,818 M.P.C.SS. Out of these, 983 or 16.8% were not functioning. Nearly 238 societies (4%) had been running at a loss.

Apart from these M.P.C.SS there were 8,609 other specialised co-operatives such as fisheries co-operatives, weavers' co-operatives and coconut producers' co-operatives.

At the secondary level there were 124 M.P.C. Societies Unions and 161 other Unions. These unions handled the distribution of goods and services among the primary societies. They were in fact wholesale organisations for the supply of consumer goods.

At the national level there were two types of organisations. The first group consisted of six organisations entirely co-operative in character and the second group consisted of two organisations which though co-operative were essentially public corporations. Under the first group were the agricultural producers', coconut producers' and industrial, fisheries and consumer Co-operative Unions. The Second was the C.W.E. and the People's Bank. The C.W.E. was intended to be a central wholesale organisation while the People's Bank assisted co-operative development by half the shares of the people's Bank being held by co-operative societies.

Apart from these organisations there was also an ideological organisation known as the Co-operative Federation of Ceylon. This was partly meant to advise the government on co-operative policies, but according to the Commission on Co-operatives in 1968, "the Co-operative Federation does not seem to have been positive enough in articulating co-operative policy. Occasionally, by its very silence the Federation seems to be shielding the Government when it should be challenged or criticised."

In 1971 the Government undertook a major structural reorganisation of the Co-operative Movement. The main feature of this reorganisation related to the size, scale of operations and field of authority of the co-operative societies. The secondary unions were abolished and these together with the 5,818 M.P.C. Societies were converted into 372 Primary M.P.C. Societies with about 10,000 branches at regional and village levels. Each one of these 372 Primary M.P.C. Societies covered in general, one or more local authority areas which may be a Village Council, Town Council, Urban Council or Municipal Council.

Annexe I gives the important historical dates in the development of the Co-operative Movement.

4. Relation to National Credit System

One of the main objectives of the establishment of the people's Bank in 1961 was to provide an effective apex bank to the Co-operative Movement and ensure a greater supply of credit to the rural sector. It has opened up a number of branch offices (72 branches as at the end of 1970) to serve a less urbanised clientele in remote areas. Under its extended scheme of rural credit, loans are given to selected Co-operative Societies for re-lending to their members. Under its Rural Bank Scheme selected co-operatives are authorised to set up rural banks at village level. Although the People's Bank had given loans to the rural sector for purposes such as housing, electrification etc earlier, it is in 1963 that it entered the field of agricultural credit. This was the first time that the commercial banking system became directly linked with a major scheme of agricultural credit.

Under the existing co-operative system of credit, the Central Bank of Sri Lanka is only linked to the new Agricultural Credit Scheme by the guarantee given by (on behalf of the Government), to the banks operating this Co-operative system of credit, which then becomes the secondary source of finance. So far only the People's Bank has entered this scheme. The Central Bank guaranteed the repayment of 75 percent of the loans given out by the People's Bank to the co-operatives. For this guarantee the People's Bank has to pay half percent interest. On re-financed loans under this scheme the rate of interest charged by the Central Bank is $1\frac{1}{2}\%$ per annum. The People's Bank charges 8% per annum from the co-operatives with a rebate of 3% for prompt repayment.

5. Other Programme Activities

Unlike in most developing countries the Co-operative Movement serves both the urban as well as the rural areas. The Commission on the Co-operative Movement in 1968 observed that it serves "as weft of the State's economic warp, funnelling a great part, perhaps 30 percent, of the total non-plantation agricultural credit to cultivators playing an important role in the development of small industries and supplying 65 percent of the population with essential food commodities." The purchase of paddy and other agricultural products coming under the G.P.S. is done through the co-operatives. The co-operatives also help to promote the social and cultural activities of their members. The retail distribution of foodstuffs, the rationed items of food such as rice, maldive fish, dhall, and a wide range of other commodities are done through the co-operative societies. Several M.P.C. Societies also engage themselves in productive activities such as the production of textiles. After the recent re-organisation, the co-operatives that do make a profit are required to invest in development programmes, initiated by the Divisional Development Councils. The Divisional Development Councils have linked the Co-operative Movement to a new source of finance for a special programme of rural development which has been described in an earlier section. The finance provided for this programme comes almost entirely from the government budget. As indicated earlier, part of the funds are given as an outright grant to the enterprise undertaking the project, and part is channelled as loan capital through the People's Bank.

6. Relation to pre-existing Local Institutions

The Co-operative Movement was nurtured in its early stages by the Agricultural Society of Ceylon and later developed by Campbell and Calvert who were Britishers in the Ceylon Civil Service in 1920.

The Co-operatives have to compete with other agencies in their consumer, marketing and credit functions. But in the purchasing of paddy, they now have a virtual monopoly after the establishment of the Paddy Marketing Board, in 1971. This is a State organisation which is statutorily empowered to operate as the sole trading organisation in paddy. In accordance with present government policy, this organisation makes its purchases from the producers through the Co-operative Societies. Under this set-up, the Paddy Marketing Board and the Co-operative network will enjoy a monopoly of the trade in paddy. In actual operation however the Board's monopoly rights have not been strictly enforced and a sizable private trade in paddy and rice continues. On the credit function, the Co-operatives have to fall in line mostly with government institutions such as the Department of Agrarian Services, and with the private institutions such as the finance companies.

In regard to other farmer associations which are linked to the Co-operative Movement, mention should be made of the Cultivation Committees set up under the Paddy Lands Act. These Committees are linked with co-operative societies in the preparation of the production plans, for the cultivation season at the village level, targets of production, extent of land to be cultivated for the season, the needs of fertiliser, seed paddy. Credit and other inputs are estimated by the government officials in consultation with the Cultivation Committees and the Co-operative Societies. These production plans therefore form the basis for co-ordinating the activities of the Cultivation Committees and the Co-operative Societies in given areas. The recent establishment of the Divisional Development Councils has provided machinery for the co-ordination of the activities of co-operative societies with other development activities at the village level.

The Co-operative Department as well as the Co-operative Societies have drawn their staff from local personnel. There have been some foreign technical assistance for the development of the Co-operative Movement in Sri Lanka, but apart from such assistance there has been no continuing links between the Co-operative Movement and any other international agencies.

Programme Characteristics:

B. Objectives

I. General Objectives

(a) Announced

The principal objective of the credit scheme described in this study is to provide the peasant farmers with the working capital required for his agricultural operations mainly in paddy cultivation, and thereby increase the production of rice and other foodstuffs in Sri Lanka, to reach self-sufficiency in these items. A secondary objective which flowed from this, was to relieve the peasant of his chronic indebtedness to non-institutional sources of credit. The non-institutional credit system available to the farmer through middlemen, traders and a small minority of the more prosperous farmers imposed on him conditions, interest rates and terms of payment which substantially reduced his farm income, contained him within a vicious circle of low income, low productivity and chronic indebtedness. One measure which could contribute towards breaking this vicious circle would be a system of equitable institutionalised credit. Reducing the burden of interest and debt was regarded as an essential element in providing the necessary incentives for higher productivity in the peasant sector. The government agricultural credit schemes were also motivated by the assumption that the supply of sufficient working capital to the farmer could induce him to adopt more readily the new techniques such as transplanting, use of new varieties of seed paddy, use of fertilisers and agro chemicals. The use of agro chemicals and fertilisers was further encouraged by the issue of these items on credit as part of the agricultural credit scheme. These objectives have remained fairly stable over the period and they conform to declared national policies on food production and the social and economic upliftment of the peasant farmer.

(b) Apparent

Up to 1967 the rates of interest were highly subsidised and therefore although the avowed objective was increasing the production of paddy and other subsidiary food crops, the credit schemes also came to be regarded as welfare measures which were adopted by the government to assist the peasant farmer. The overtones of welfare which were associated with the credit scheme influenced the expectations of the peasant farmers. Among some sectors of the farming community, the government came to be regarded as a generous and benevolent creditor with whom repayment obligations could be violated with impunity.

The actual operation of the credit scheme therefore did not support the development objective to the extent and the manner envisaged. Where the government was the creditor there were social and political pressures for the lenient treatment of defaulters and as a result there was no strict enforcement of recoveries. This undermined the efficacy of the credit system as a viable commercial credit system and emphasised its welfare aspects.

One objective of the scheme was to provide the farmer the credit he needs at the right time but in actual implementation, these objectives were only partially achieved due to procedural delays. He often received the credit when the need for it had been superseded by other forms of available credit (especially the non-institutional sources). The Government has decided that the lack of working capital should not prevent the adoption of improved cultivation techniques, and that co-operatives should replace the less desirable non-institutional lenders as a source of credit. In its anxiety to pursue the objectives this policy of support for the co-operatives followed by the government, it has ended up with a high proportion of loans overdue in the total amount of loans outstanding; it was 65 percent in 1965/66, 70 percent in 1966/67 and 82 percent in 1970. As a result, many co-operative societies and farmers have defaulted and become ineligible for credit under the Schemes. According to the announced policies and objectives, the credit scheme sought to extend its coverage to include the majority of small farmers. But although the volume of credit expanded over the years and there was a substantial input of agricultural credit into the small

farmer community, the expansion of credit was not steady and progressive. There were fluctuations and the volume of credit expanded in stages and then contracted as defaults increased. Even at the peak of their operations, the agricultural schemes do not appear to have covered a majority of the paddy farmers. On the available data it is difficult to assess the proportion of small farmers who would have needed to participate in the schemes to satisfy their requirements of working capital and the effective rate of participation of these farmers in the government sponsored schemes. However from the data on rural indebtedness, there is no doubt that the major share of the outstanding rural debt was owing to non-institutional sources of credit. From the evidence it would appear that while the institutionalised schemes of credit were in operation, a great many farmers were still having recourse to non-institutional sources of credit for both agricultural and non-agricultural purposes.

2. Terms of loans under the three Credit Schemes, Purpose and Period.

Extended Credit Scheme

The purpose for which the loan facilities are provided under the extended credit scheme were for agricultural production, animal husbandry, cottage industry, housing, debt redemption, electrification, consumption and emergencies such as funerals or medical expenses. Under this scheme, loans were given by the People's Bank to selected Co-operative Societies for re-lending to their members. But with the introduction of the Rural Bank Scheme, the lending operations of the co-operatives were to be handled by the Rural Banks once these were established. At present there are 76 co-operatives which operate under the extended credit scheme.

The following Table shows the credit limit by purpose and duration, under the extended credit scheme:

TABLE XI
Extended Credit Scheme - Credit Limit By
Purpose And Duration

Purpose	Maximum Limit	Duration
	Rs.	
Production . . .	2,500	12-60 months
Consumption . . .	500	12 ,,
Housing Construction . . .	2,500	60 ,,
Housing Renovation . . .	,500	36 ,,
Housing Extension . . .	1,000	48 ,,
Debt Redemption . . .	2,500	60 ,,
Electrification . . .	2,500	60 ,,
Emergencies . . .	200	12 ,,

Source: People's Bank

The Rural Bank Scheme

The scheme of the People's Bank is to have a Rural Bank in each Co-operative Society. From 1971 the People's Bank has stopped giving new loans under the extended credit scheme, but continued to give credit under the Rural Bank Scheme and the new Agricultural Scheme of 1967. The Rural Banks are given overdraft facilities by the People's Bank. The Rural Banks lend for several purposes, and these purposes in broad categories, are shown in the Table below. The credit schemes of the Rural Banks broadly correspond to the Extended Schemes operated by the Co-operative Societies prior to the formation of rural banks under their management.

TABLE XII
Rural Bank Scheme - Purpose And Credit Limit

Purpose	Credit Limit
Production	2,500
Housing	2,500
Redemption of Debts	2,500
Consumption	500
Emergencies (such as deaths and illnesses)	200

The maximum credit limit per member is fixed at Rs. 3,000.

Source: People's Bank

The New Agricultural Credit Scheme

Under this scheme the main purpose of loans is for cultivation. The credit requirements of the paddy farmer for all cultivation needs are estimated at Rs. 220 per acre and the breakdown is as follows:

TABLE XIII
The New Agricultural Credit Scheme - Purpose And Credit Limit

	Rs.
Seed paddy (2 bushels)	32
Ploughing	55
Fertiliser (4½ cwts.)	58
Transplanting or row-seeding	25
Weeding and weedicides	25
Harvesting	25
	Rs. 220
	Rs. 220

Within the maximum limit of Rs. 220 per acre for paddy cultivation certain variations are permissible. For instance, the Rs. 50 allotted for transplanting or row-seeding and manual or mechanical weeding may be used for the purchase of chemical weedicides. Loans may also be given for the purchase of approved insecticides and fungicides.

Crop	Rate to a max. of 5 acres per member	Period of Loan Days	Break-up by purpose and cash or kind basis	
Chillies (irrigated)	Rs. 200 per $\frac{1}{4}$ acre	270	In cash-	
			(a) Ploughing and land preparation, transplanting and weeding ...	Rs. 150
			In kind	
			Fertiliser and agro-chemicals ...	Rs. 35
				<u>Rs. 185</u>
Red Onions	Rs. 200 per $\frac{1}{4}$ acre	180	In cash-	
			Seed onions	Rs. 100
			In kind-	
			Fertiliser and agro-chemicals ...	Rs. 100
				<u>Rs. 200</u>
Bombay Onions	Rs 200 per $\frac{1}{4}$ acre	210	In cash-	
			Seeds and nursery	Rs. 100
			In kind-	
			Fertilisers and agro-chemicals	Rs. 100
				<u>Rs. 200</u>
Potatoes	Rs. 175 per $\frac{1}{8}$ acre Initially, for $\frac{1}{8}$ acre and progressively increasable $\frac{1}{8}$ acre per season	180	In cash-	
			Labour expenses	Rs. 20/60
			In kind - or cash	
			Seed potatoes (2 cwts.)	Rs. 134/40
			In kind-	
			Fertiliser I (cwt.)	Rs. 20/-
				<u>Rs. 175/-</u>

Rates and conditions for loans for vegetables

Region	Rate per acre	Period of loan by crop	
		Crop	Period
Nuwara Eliya ...	Rs. 100	Leeks ...	240 days
Badulla, Welimada, Kandy and Matale ...	Rs. 750	Beans ...	90 „
Negombo, Chilaw and Puttalam ...	Rs. 650	Potatoes ...	180 „
		Other vegetables	150 „
Ratnapura ...	Rs. 600		
Kurunegala ...	Rs. 500		
Other areas ...	Rs. 500		

Agrarian Services Department Loans

Loans are also given by the Department of Agrarian Services for specific purposes. Medium-term loans are given for purchases of agricultural equipment such as sprayers and water - pumps and short-term loans are given for marketing, jungle-clearing and terracing. The purpose and the period of loans given out by the Agrarian Services is given in the Schedule below:

Loan Schemes in operation by the Department of Agrarian Services — Loan to Co-operative Societies

Purpose	Long - term Loans Amount of Loan	Period of Repay- ment and Number of Instalments
1. Jungle - clearing for subsidiary food crops	Rs. 250 per acre	5 Years – annual Instalments
2. Terracing and levelling	Rs. 100 per acre	5 years – annual instalments
3. Construction of wells	Rs. 2,500 per well	10 years – annual Instalments
4. Water Pumps	Price of the Pump	5 years – 10 half yearly

5. Purchase of lorries	Price of lorry	5 years – 10 half yearly
6. Construction of Go-downs	Ranging from Rs. 20,000 to Rs. 41,500 depending on the capacity	10 years – annual instalments
7. Construction of Fertiliser Stores	Ranging from Rs. 480 to Rs. 6,300 depending on the capacity	10 years – annual instalments
8. Conversion of rocky land into arable land	Rs. 1,000 per $\frac{1}{4}$ acre	6 years – annual instalments
9. Subsidiary food crops by Youth Settlement Schemes and Colonisation Schemes.	Rs. 600 per acre	6 years – annual instalments
10. Acquisition of land for Fertiliser Stores	Cost of the land and legal fees	10 years – annual instalments
11. Asweddumization-Paddy cultivation	Rs. 250 per acre	5 years – annual instalments
12. Purchase of Iron Safes	Price of the iron safe	5 years – annual instalments
13. Purchase of Weighing Machines	Price of the machine	5 years – annual instalments
14. Construction of Rice Mills	Cost of mill building as per Type Plan and Machinery.	10 years – annual instalments

Medium - Term Loans
Amount of Loan

Purpose	Amount of Loan	Period of Repayment and Number of Instalments
1. Purchase of Barbed Wire	Minimum requirement per acre	2 years: 4 half-yearly instalments
2. Construction of single Mhote Vavuniya (District)	Rs. 250 per Mhote	2 years - annual instalments
3. Pineapple cultivation	Rs. 950 per acre	3 years and 9 months: Specific instalments
4. Purchase of Buffaloes	Rs. 400 per pair	3 years - annual instalments
5. Purchase of Sprayers and Dusters	Price of machine	2 years - annual instalments
6. Agricultural implements, agro-chemicals	Price of implements or agro-chemicals	1 year - annual instalments

**Loans To Cultivation Committees Outside
The New Agricultural Credit Scheme**

Purpose	Amount of Loan	Period of Repayment and Number of Instalments
1. Construction of Village Level Fertiliser Store	Capacity 50 tons: Rs. 6,300	10 years - annual instalments
2. Purchase of Sprayers and Dusters	Rs 200 maximum limit per Committee	2 years- 4 half-yearly instalments
3. Purchase of Two-wheeled Tractors and ancillary Equipment	Rs 2,000 maximum limit per Committee	3 years - 6 half-yearly instalments
4. Payment of Advances to Cultivation Committees for the purchase of Paddy under the G. P. S.	Rs 8,400 (equivalent cost of 600 bushels)	6 months-instalments

Note: Interest at the rate of 2% per annum is charged on the above loans.

C. Organisation

I. General Structure

To have a clearer picture of the structure of relationships in the Co-operative Movement, it is important to discuss the functional relations between the officers of the Co-operative Development Department and the Co-operative Societies with the help of an organisational chart. Annexes 2 and 3 show the Departmental Organisation and the organisation of the Co-operative Movement.

A government department was established in 1930 for the exclusive purpose of administering the Co-operative Movement. The department is the main central government agency of administration and is in charge of a major activity or group of interrelated activities. It functions under a Ministry which consists of a group of departments and other agencies forming the area of responsibility allocated to a Minister of the Cabinet. The Co-operative Department has functioned under several Ministeries since its inception. In the nineteen sixties it was under the Ministry of Food & Agriculture; with the new Government formed in 1970 it has been transferred to the Ministry of External and Internal Trade. The regulatory functions of the Co-operative Department in its relations with the co-operative societies are governed by the Co-operative Ordinance of 1921 and the subsequent Acts and Amendments to it. The Minister who is for the time being in charge of the Co-operative Department is responsible to the Cabinet and to Parliament for implementing government policies. Under the Constitution he is the chief political executive for the area of responsibility entrusted to him. Immediately under him is the Secretary who is the chief non-political executive. In regard to the Co-operative Movement, in the current allocation of functions, the Minister of External and Internal Trade and the Secretary are at the apex of the organisational structure which deals with the Co-operative Movement. The Commissioner of Co-operative Development who is also the Registrar of Co-operatives is responsible to the Minister through the Secretary for the implementation of policies relating to the co-operative field and the overall management of the Co-operative Movement. The Commissioner is responsible under the acts for the registration, supervision and audit of the

Co-operative Societies, and he co-ordinates and implements Government policy in regard to the development of co-operatives. On matters of co-operative and administrative policy he will work under the guidance of the Secretary. The Commissioner is assisted by five Deputy Commissioners who are assigned the following functions :

- (a) Administration — this function is confined to the Department
- (b) Legal and Audit which includes registration, liquidation and auditing of societies
- (c) Consumer activities
- (d) Industry and Fisheries
- (e) Agriculture.

The organisation for the 22 administrative districts in the country comes under four Senior Assistant Commissioners who are in charge of four Ranges or groups of Districts. They are directly responsible to the Commissioner of Co-operative Development for the operation of Co-operatives and their development programmes in each Range. The Senior Assistant Commissioners issue policy directives on behalf of the Commissioner to the Assistant Commissioners in each district. There are 26 Assistant Commissioners in the 22 districts and 13 other Assistant Commissioners in the Island in charge of auditing the Co-operatives. These A.C.C.Ds co-ordinate Departmental activities in the district. They supervise the Primary Co-operatives and their regions and they play the role of advisers to the Co-operatives. Assistant Commissioners attend meetings of the General Council of Primary Co-operatives and attend to policy problems arising at these meetings.

At the level below the District Officer, the Co-operative Inspectors play an important role by linking the Department to the Co-operative Societies and their membership. There are several grades of Co-operative Inspectors in the Department. These Inspectors visit and supervise the Co-operative Societies. Co-operative Inspectors are given a training at the Co-operative Training College in the methods of supervision, maintenance of accounts, management, and other subjects relevant to co-operatives. The Co-operative Inspector

has therefore an advisory and educational role in relation to Co-operative Societies. He supervises their activities, audits their accounts and settles various disputes that may arise. According to the provisions made in the Co-operative Ordinance, the Co-operative Inspector may be appointed as an arbitrator to settle disputes.

As already mentioned all societies registered by the Registrar of Co-operatives are subject to the control and supervision of the Department. But although the Co-operative Department is responsible for the specific co-operative elements—its legal form, the proper maintenance of accounts, regularity in the procedures followed, the development of co-operation and participation of the membership in the organisation and so on — Co-operative Societies had close links with different government departments and were subject to their supervision depending on their functions and activities. The work of the Multi-purpose Co-operative Societies in regard to paddy purchases, agricultural credit and supply of agricultural inputs in the peasant sector was closely supervised and co-ordinated by the Agrarian Services Department and the Ministry of Agriculture. The Fisheries Co-operatives came under close supervision of the Fisheries Department. The activities of the textile co-operatives were closely co-ordinated by the Small Industries Department. The division of functions between the Co-operative Department and the Departments responsible for the programmes and activities undertaken by the societies sometimes did cause problems of co-ordination.

Prior to 1971, at the primary level of the Co-operative Movement there was a multi-purpose co-operative society for every group of three to four villages or, on an average 400 households. Above this level were the Multi-purpose Co-operative Societies Unions which in fact were unions of several primary societies. These Unions usually covered an administrative **division**—a smaller unit below the **District**. There were approximately 125 such Unions serving the primary societies. Their functions included the wholesale distribution of goods among the primary societies and private traders. They purchased goods in bulk from the Co-operative Wholesale Establishment, the government departments such as the Food Commissioner's, Public Corporations such as the Cement Corporation, Ceramics Corporation, State Trading Corporation and Building Materials Corporation and distributed them to the retail societies and retail trade. The nature

of their activities and their trade turnover enabled the Unions to make reasonable profits. Often a particular M.P.C.S. Union was able to operate at a profit even though the member societies in the Union were incurring losses. The manner in which the Unions were organised, the lack of supervision of their activities by the member societies and the Department gave rise to serious conflicts of interest between the Unions and the Societies. The management of Unions were often able to operate with a great measure of autonomy.

The primary co-operative society or the Multi - purpose Co-operative Society usually had a Committee comprising 9 to 15 members. This Committee was elected at the annual general meeting of the society. The Committee elected its Chairman, Secretary and other office-bearers who were responsible for the management of the societies. The Committee also appointed the paid employees of the society—the manager, the salesmen and labour. The Committee itself functioned in an honorary capacity. The Co-operative Inspector was expected to maintain close contact with the society and assist it in its managerial and other tasks. The societies other than Multi-purpose Co-operative Societies, such as the Co-operative Stores Societies, Agricultural Produce & Sales Societies, industrial societies etc. followed a similar pattern of management.

During the last two decades the Co-operative Movement even while it expanded rapidly, was subjected to repeated criticism for its numerous deficiencies. A number of co-operative societies were incurring losses. Management was often inefficient and service poor. It was believed that there was a high degree of corruption and misuse of funds in the Movement, and this impression was often confirmed by instances of irregularities which came to light. Above all the primary unit of co-operative activity the Multi-purpose Co-operative society, did not have the economies of scale and the volume of trade that would have provided a base for a commercially viable well managed co-operative enterprise. In 1968 Government appointed a Royal Commission to examine and report on the Co-operative Movement. Some of the recommendations of the Commission were accepted and a major reorganisation of the Co-operative Movement undertaken in 1971. The present organisation of the Co-operative Movement is an outcome of these changes.

Under the new organisational structure for the Co-operative Movement, the primary unit of co-operative enterprise—the Multi-purpose—was considerably enlarged. As a general principle it was considered desirable to have one large Primary Society for one local government authority area. The principal objective of enlarging the co-operative in this manner was to achieve a scale of operations which provided a turnover and a volume of profit that would establish the society as a viable commercial entity. This principle was however subject to a few modifications. In some instances when the local government area was too small to provide the desired economies of scale, a single primary was formed for more than one such area. In fact the area of operation and size of the new multi-purpose co-operative society brought it to a level which was midway between the M.P.C.S. Union and the primary. The new M.P.C.S. however could not perform the retail distribution for the entire area under its control from one point. Therefore the old primaries continued as branches of the new M.P.C.S. and functioned as retail stores closely linked with and supervised by the main society.

The new primary society replaced the Multi-purpose Co-operative Society Union which earlier undertook the wholesale function for the primaries. The new primary therefore combined the wholesale and retail activities for a given area of operation and distributed the goods to its other retail branches thereby retaining the profits of the wholesale activity within the main society itself.

In the reorganised set-up, 5,818 Multi-purpose Co-operative Societies have been converted into 372 Primary Co-operative Societies. Each primary society has several branch societies within its area functioning under its overall control and direction. There is no restriction in regard to the number of branches each primary can establish. This will be determined by the area, the population densities and similar factors. The average number of households served by a new primary society would be in the region of 5,100 households as against 350 to 400 households served by the old Multi-Purpose Co-operative Society. The new primary unit has therefore become a larger, more viable commercial unit with a network of servicing points which are its branches in the area of its operations. The Rural Bank was attached to the primary society and therefore enjoyed the same improvement in its volume of business and scale of operations.

According to the by-laws governing Co-operative Societies, a person must buy at least one share to become a member. In order to be eligible for bigger loans for agricultural, industrial or any other development purposes, a member may require to possess more than one share depending on the size of the loan, as the loan will normally be a multiple amount of the value of his shares. All members can vote at the meeting of the region and any member can be elected as a representative to the General Council of a Primary Society. The Council of a primary Multi-purpose Co-operative Society comprises not more than 100 members elected from the branch societies. The Board of Directors consists of 15 members elected from the Council. Out of these 15 members, 5 members are Government officers representing the Departments of Agrarian Services, Agriculture, Small Industries, Education, and Rural Development. The Board of Directors is responsible to the General Council for both the formulation of policy for the society and its administration and management. The Board is empowered to appoint a General Manager to the Primary Society. The General Manager has to be an officer who possesses certain qualifications in Co-operative Management. The Board issues the policy directives and orders to the General Manager who is required to manage the affairs of the Society in accordance with such directions.

In a branch society, the Committee comprises 9 members selected from among the membership of the branch. The duties of the Committee are to supervise the activities of the branch society, make proposals for its development, recommend and scrutinise loan applications from the members, expand the membership, organise and promote the educational and cultural activities within the region, give directions to the Manager of the branch society in regard to its management and deal with complaints and grievances of members in regard to the services rendered by the Society. Annexes 4 and 5 show the organisation structure after the reforms of 1971.

The new structure is expected to create commercially viable units and to rationalise the somewhat heterogeneous and disorderly growth of the Co-operative Movement. The new primary becomes the focal point for the co-operative activities within a small territorial unit generally coterminous with a local government authority area. The

resources of the Co-operative Department, the Inspectorate and other co-operative extension services could be concentrated effectively to upgrade the management and levels of efficiency of these primary units and by these means ensure better quality of supervision and service in the units functioning under the primaries. Within this set-up where primaries are responsible each for its own branch network and where primaries become the focus of the extension efforts of the Co-operative Department, the task of co-operative extension and the upgrading of the whole Movement becomes a more manageable one.

D. Beneficiaries

1. Selection criteria under the Extended Credit Scheme

All borrowers must be members of the Co-operative Societies and they are allowed to borrow up to 20 times their share capital. A member is not entitled to hold more than 1/5th of the share capital of the co-operative society. The normal share of a member is limited to a single share of Rs. 50 as most of the members operate on holdings of less than one acre. To obtain a loan each member has to sign a bond with two other shareholders who should also be members of the Co-operative society. Application for loans should be recommended by the Co-operative Inspector of the area to enable the Co-operative Society to obtain the necessary finance from the People's Bank.

Under this scheme, credit is also given by the Agrarian Services Department. For the M.P.C.S. to obtain loans from the Commissioner of Agrarian Services the Chairman and the Secretary of the M.P.C.S. have to sign a bond with the Commissioner of Agrarian Services which covers the amount of the loan sanctioned.

The important criteria in all these cases is the purpose of the loan (this should be within the approved purposes for which loans are granted) and the acreage of cultivation, if it is a cultivation loan. Normally defaulters are not given further loans. The maximum limits and the purposes for which loans are given under this scheme are as given in Table XI.

The Rural Bank Scheme

The Co-operative Rural Bank operates under a Credit Manager who is an employee of the M.P.C.S. According to the present system an M.P.C.S. has a number of branch committees on an area basis. The Branch Committee usually consists of 9 people and it is this Committee that will study the loan application of each member and decide on the maximum credit limit according to their opinion, of the individual member concerned. In this the Branch Committee that will bring to bear the personal knowledge and available data it has of each member. Normally the maximum credit limit per member is fixed at Rs. 3,000. All loan applications are processed by the Branch Committee before being forwarded to the Credit Manager of the M.P.C.S. who in turn will seek the approval of the M.P.C.S.

At present selected co-operatives which are now functioning under the extended credit scheme will gradually be converted into the rural bank scheme. Eventually the co-operative societies will operate this credit scheme only through its rural banks.

The New Agricultural Credit Scheme

Normally a society would grant a loan to a member on the basis of his individual maximum credit limit (IMCL) and the amount lent will not exceed the difference between the member's IMCL and his current indebtedness.

The IMCL is calculated on the following basis:

- (a) An individual cultivator is entitled to a sum not exceeding Rs. 220 per acre up to a maximum of 10 acres for the first cultivation. Where there are two cultivations a year for the second season his total indebtedness may rise to $1\frac{1}{2}$ times this sum.
- (b) In respect of loans obtained without hypothecation of property, no member engaged in the cultivation of such produce approved by the Asst. Commissioner should become indebted to the society for a sum 20 times in excess of the value and no other member in excess of 5 times the first value of shares allotted to him, subject in every case to a maximum indebtedness of Rs. 4,000.

- (c) In respect of loans obtained against hypothecation of property any member's indebtedness to the society shall not exceed half the value of such property.

Notwithstanding the above, a member's total indebtedness shall not at any time exceed any credit limit fixed by the General Committee in respect of such credit. Normally defaulters are not entitled to further loans. Share defaulters may be granted a loan on condition that arrears of share payment are settled simultaneously with the grant of the loan.

The Department of Agrarian Services also continues to give medium and long-term loans to Co-operatives. The department has stopped giving short-term loans, as this function has now been taken over by the People's Bank and the new Agricultural Credit Scheme. The Chairman and the Secretary of the Co-operative Society has to sign a bond in favour of the Commissioner of Agrarian Services.

2. Graduation Policy

There is no fixed Graduation Policy as such but if successful borrowers are able to win the confidence of their respective committees and are eligible to obtain further loans as they are considered creditworthy customers with a good repayment record.

3. Other Sources of Credit

In Sri Lanka the majority of the other sources of credit are from the non-institutional sources such as professional money-lenders, semi-professional money-lenders, landlords, commission agents and traders, boutique or trade credits, boutique loans and friends and relations.⁴

(a) Professional and Semi - Professional Money - lenders.

According to the survey data, professional and semi-professional money-lenders are the most important sources of credit and together they provided 28.8% of the amount borrowed, 24.3% of the debt currently outstanding and 15% of the total outstanding debt. A person who engages himself in money-lending as his main occupation

4 Report of the Survey of Rural Credit and Indebtedness 1969 conducted by the Central Bank of Ceylon.

was considered a professional money-lender whereas a part-time money-lender engaged in lending in addition to his main occupation, for example, a school teacher who engages in money lending, was considered as a Semi-professional money lender. These classes of lenders would lend at a high rate of interest, mostly on the pledge of security and on comparatively stringent terms. The terms on which credit is extended by them and the high rates of interest generally charged impose an economic burden on the peasant that is detrimental to the attainment of the objectives of increased agricultural production.

(b) **Friends and Relations.** According to the survey of rural credit and indebtedness of 1969 conducted by the Central Bank of Ceylon, among the specified categories, friends and relations were one of the most important sources of credit to the rural sector. Friends and relations were those lending out of consideration and friendship or relationship and not as a part of business transaction. Of the total debt 25.8% of the amount borrowed in the reference period of the survey, 21.0% of the total amount outstanding from friends and relations were not free of interest, though to a very large extent these were so. The absence of any interest as such was an indication that these loans were obtained on personal understanding and trust among the creditor and debtor. These factors account for the importance of this source of credit to the rural sector.

(c) **Boutiques.** In regard to credit given to boutiques a distinction has been made between trade credits were more important of the two and represented as much as 10.5% of the total amount borrowed although its percentage share of the total amount outstanding was much less at 1.5% and was 2.8% of the total amount currently outstanding. Trade credits from boutiques is a facility that is commonly extended by traders to their customers to tide over periods of low cash receipts.

(d) **Landlords, Commission Agents and Traders-** A feature of equal importance that is revealed by the survey is the significance both of commission agents and landlords as other sources of credit. In peasant agriculture which is characterised by a preponderance

of tenant cultivators, the landlord would normally be an important source of credit. But the relative insignificance of the landlord could be a reflection of the degree to which credit transactions between the tenant cultivator and the landlord take place in kind.

The commission agent, on the other hand, is important as a source of credit largely in the vegetable growing areas and, to a lesser extent, in the tobacco-growing area. Traders were in general urban based and advanced money to the cultivator on the mortgage of the expected crop. Their activities too were limited mainly to the vegetable-growing areas.

Apart from these non-institutional sources, loans were also obtained from the branch offices of the People's Bank on the surrender of collateral acceptable to the Bank. The Rural Banks engage in pawning activities as well. This also provides a certain amount of credit to the rural population.

E. Lending Policies and Procedures

I. Portfolio

The use of the People's Bank credit facilities under the 3 Schemes are given below.

(a) Extended Credit Scheme

Table XIV summarises the progress of this Scheme since 1967:

At the end of 1970 the Scheme was operated by 76 co-operative societies as against 72 at the end of the previous year. The aggregate overdraft limits approved for these Societies by the People's Bank increased from Rs. 1.86 million at the end of 1969 to Rs. 1.90 million at the end of 1970 while the aggregate utilised by the Societies increased from Rs. 1.6 million to Rs. 1.20 million. One Co-operative left the Scheme in 1970 on becoming a Rural Bank.

TABLE XIV

**Extended Credit Scheme 1967-1970 Use Of People's Bank
Credit Facilities**

End of Quarter	No of Co-operative Societies	Aggregate Overdraft Facilities	
		Approved by People's Bank	Utilised by Societies
(Amount in Rupees)			
1967 March	55	1,638,568	1,275,450
June	56	1,651,068	1,279,757
September	58	1,685,268	1,254,471
December	67	1,901,118	1,295,673
1968 March	66	1,796,818	1,211,925
June	67	1,829,818	1,231,479
September	69	1,872,818	1,293,536
December	69	1,837,118	1,162,904
1969 March	72	1,892,818	1,166,789
June	72	1,914,818	1,224,288
September	71	1,856,318	1,210,672
December	72	1,861,950	1,163,384
1970 March	73	1,878,450	1,229,580
June	74	1,903,450	1,207,662
September	73	1,854,450	1,183,657
December	76	1,903,450	1,200,847

Source: Central bank Annual Report, 1970

(b) Rural Banks

The following Table summarises the deposits and loans of Rural Banks on a quarterly basis since 1965. The finances of Rural Banks continue to expand with the opening of Rural Banks in the Co-operatives. When this happens the Rural Bank takes over the granting of credit which was actually done by the Co-operatives. At the end of 1970 there were 90 Rural Banks.

The total deposits with the Rural Banks recorded an unprecedented increase of Rs. 10.7 million in 1970 which could be attributable mostly to the demonetisation that took place in 1970. The number of savings deposits increased by 24,313. The average size of a savings deposit was Rs. 322 as against Rs. 199 at the end of 1969. The number of fixed deposits rose from 724 at the end of 1969 to 892 at the end of 1970.

The expansion in credit granted by the Rural Banks is seen in the increase in the number of loans from 7,893 in 1969 to 10,017 at the end of 1970, and in the increase in the outstanding loans from Rs 5 6 million to Rs. 7.1 million. The average loan increased from Rs. 706 in 1964 to Rs. 711 at the end of 1970.

(c) **The New Agricultural Credit Scheme**

The following Table gives the loans granted under this Scheme from 1967 to 1970:

TABLE XVI
New Agricultural Credit Scheme Paddy Loans

Season:	Amount in Rupees Million					
	Maha 1967/68	Yala 1968	Maha 1968/69	Yala 1969	Maha 1969/70	Yala 1970
Loans granted	61.4	11.3	45.7	9.9	39.2	11.5

Source: Central Bank Annual Report, 1970.

Loans granted in 1969/70 Maha Season amount to Rs. 39.2 million compared with 45.7 million in the Maha Season 1968/69 and 61.4 million in 1967/68. Loans granted in 1969/70 amounted to only 64 percent of the loans granted in 1967/68, which was the first Maha Season under this Credit Scheme. Loans for the Yala Season 1970, however, improved somewhat, amounting to Rs. 11.5 million as against Rs. 9.9 million in 1969 and Rs. 11.3 million in 1968.

Table XVII shows the loans granted for the subsidiary crops.

Loans granted for the production of subsidiary crops such as chillies, red onions, potatoes and vegetables rose from Rs. 6.4 million between October 1968 and September 1969 to Rs. 7.9 million in September 1970. Loans for chillies, red onions, potatoes and vegetables continued to account for the bulk of the total loans for subsidiary crops.

The loans given out by the Department of Agrarian Services in 1965/66 to 1969/70 to Co-operative Societies are given in Table XVIII.

TABLE XVIII
Classification of Loans Granted to Co-operative Societies According to Purpose

Purpose of Loan	Amount taken during 1965/66		Amount taken during 1966/67	
	Rs.	cts.	Rs.	cts.
Short Term Loans:-				
1. Seed Paddy	4,205,031.40		3,499,600.80	
2. Chemical Fertilizer	3,837,614.45		4,828,465.00	
3. Agro-chemicals	15,855.25		10,354.70	
4. Ploughing	10,801,301.00		9,259,229.00	
5. Transplanting or Row Seeding	2,243,718.50		2,314,765.75	
6. Weeding	3,232,178.50		3,345,336.85	
7. Harvesting	1,371,460.50		1,715,389.00	
8. Electorate Farms	382.50		—	
9. Marketing of Cotton	630,000.00		500,000.00	
10. Subsidiary Food Crops	1,472,561.00		2,192,890.98*	
11. Pineapple Cultivation	62,258.75		—	
12. Poultry Farming	—		13,418.29	
Medium Term Loans:-				
13. Sprayers	2,204.00		1,184.75	
14. Agricultural Implements & Machinery	38.00		—	
15. Barbed Wire	9,939.42		13,364.00	
16. Water Pumps	19,217.10		412,785.90	
17. Wells	7,000.00		9,000.00	
18. Asweddumization - (Youth Farm)	—		66,000.00	
19. Asweddumization - (Other Societies)	6,775.00		217,945.00	
20. Making Rocky lands Arable	6,000.00		—	
21. Iron Safe	—		1,200.00	
Long - Term Loans				
22. Purchase of land	2,800.00		1,600.00	
23. Buildings	143,067.23		347,697.97	
24. Rice Mills	41,553.80		159,226.00	
25. Vehicles	24,058.13		24,058.13	
26. Paddy Marketing Loans	—		3,373,400.00	
Total	28,138,014.53		32,306,912.12	
* Onion Cultivation	Rs. 1,678,277.00			
Chillie Cultivation	409,870.00			
Potatoe Cultivation	104,743.98			
Total	Rs. 2,192,890.98			

TABLE XVIII - (Continued)

Classification of Loans Granted to Co-operative Societies according to Purpose

Purpose of Loan	Amount taken during 1967/68		Amount taken during 1968/69	
	Rs.	cts.	Rs.	cts.
Short-Term Loans				
1. Seed Paddy	...	2,455 20		—
2. Agro-chemicals	...	2,871.40		—
3. Marketing of Cotton	...	600,000 00	800,000.00	
4. Subsidiary Food Crops	...	77,455.86		—
Total	...	<u>682,782.46</u>	<u>800,000.00</u>	
Medium - Term Loans				
5. Sprayers		—	47,585 00	
6. Buffaloes		—	408,400.00	
		—	<u>455,985.00</u>	
Long-Term Loans				
7. Water Pumps	...	133,680.00	382,430.00	
8. Asweddumization (Youth Farming)	...	1,323,960.00	1,238,999.66	
9. Asweddumization (other Societies)	...	11,200.00	3,000.00	
10. Making Rocky land Arable	...	750.00	3,750.00	
11. Buildings	...	72,052.52	37,287.37	
12. Village Level Fertiliser Stores	...	259,217 02	113,421.40	
13. Rice Mills	...	123,997.50	38,421.40	
14. Vehicles	...	22,639.38	—	
15. Weighing Machines	...	—	4,100.00	
		<u>2,630,278.88</u>	<u>3,077,857.93</u>	

TABLE XVIII - (Continued)

Purpose of Loan		Amount taken during 1969/70	
Short - Term Loans		Rs.	cts.
1. Seed Paddy	...	—	—
2. Cultivation	...	—	—
	Total	—	—
Medium - Term Loans			
3. Sprayers	...	1,340.50	
4. Buffaloes	...	33,600 00	
5. Barbed Wire	...	21,504 00	
6. Pineapple Cultivation	...	14,615.00	
	Total	<u>374,259.50</u>	
Long - Term Loans			
7. Water Pumps	...	340,962.25	
8. Asweddumization (Youth Farming)	...	463,949.14	
9. Making Rocky Lands Arable	...	500.00	
10. Buildings	...	54,809.00	
11. Village Level Fertiliser Stores	...	95,604.51	
12. Vehicles	...	37,500.00	
		<u>993,324.90</u>	

Source: Commissioner of Agrarian Services

The short-term loans given by the department have progressively decreased until in 1969/70 there were no short-term loans given. This is because, as stated earlier, the granting of short-term loans had been taken over by the People's Bank and the New Agricultural Credit Scheme. The granting of long-term loans also shows a decline mainly due to defaults in repayments.

2. Interest Rates

Prior to the formation of the New Agricultural Credit Scheme in 1967, the rates of interest carried with it a large element of subsidy by the government. In fact part of the misuse of funds may have been due to the fact that some borrowers realised that the going rate in the market was higher and that they could make

larger profits by re-lending the money given to them by the government at a subsidised rate of interest. Prior to 1967 the lending rates were around 4 to 5 percent. These were the rates calculated on the basis of funds provided by the Department of Agrarian Services at 2 percent. These rates were very low in comparison to actual rates of interest prevailing in the rural sector as revealed by a survey of rural indebtedness conducted in 1968. The rates of interest prevailing in the rural sector at the time were such that the bulk of loans carried rates of interest well over 18 percent. The maximum rate of interest under the Money Lending Ordinance is fixed at 18 percent.

The Committee of the New Agricultural Credit Scheme which submitted its Report in June 1966 recommended that there was no necessity for the government or the banks to undertake lending in the rural sector at low (subsidised) rates of interest especially when it is considered that interest charges, however high the rate, would form only a very small part of the total production costs in rural agriculture. The Committee therefore felt that the rate of interest should be worked out in such a way that the lending institutions will have an adequate margin to cover cost involved in operating this Scheme as well as the high risks involved in lending to the rural sector. As a result the rates of interest under the New Agricultural Credit Scheme have been so adjusted that the bank will lend to the co-operative societies at 9 percent interest per annum and the societies in turn should lend to their members at no more than 12 percent. Where a society repays a bank loan in full on or before the due date, the bank will give the society a rebate of 3 percent on the interest recoverable. The society is expected to give the same rebate in respect of monies that have been re-lent to its members, if the members repaid their loans on or before the due date. The facilities of organised credit through financing institutions available to the urban borrower are not available to the rural borrower. If co-operative credit was not available, the rural borrower will have to go to the private money lender and obtain at interest rates which were much above the legal maximum of 18% whilst the urban borrower can get it at around 15 percent.

The rate of interest given under the Rural Bank Scheme and the Extended Credit Scheme are the same as for the New Agricultural Credit Scheme.

The rates differ within the limits mentioned depending on the period of the loan.

3. Collateral

Normally the peasant farmers are not in a position to submit any type of acceptable collateral. Loans given by the Department of Agrarian Services to the Multi-purpose Co-operative Societies are based on a bond signed by the Chairman and Secretary of the Multi-purpose Co-operative Society in favour of the Commissioner of Agrarian Services. A copy of this bond is given in Annexe 6. The members of the Co-operative Societies in turn sign a bond in favour of the co-operative societies. This bond is signed by the member with two sureties who should also be members of the co-operative societies. Under the New Agricultural Credit Scheme, the individual members submit their loan applications to the primary societies through their branch committees. These applications must be recommended by the branch committee and the Co-operative Inspector. Wherever possible, land, buildings, vehicles, and other assets which are acceptable to the Co-operative Society will be accepted as collateral.

4. Other Subsidy

The Department of Agrarian Services operates a fertiliser subsidy scheme. On a recommendation made by the Committee on Paddy Fertilisers appointed by the Minister of Agriculture and Food in 1968 the Government decided to introduce a single rate of subsidy of 50 percent for both cash and credit purchases of fertiliser, with the commencement of the Maha 1968/69 season. This brought to an end the system of dual subsidy under which purchasers of fertiliser for cash payment were entitled to a subsidy of 50 percent and purchasers of fertiliser under the Credit Scheme were entitled to a lower subsidy of 33½ percent. This introduction of a uniform subsidy resulted in a considerable simplification in the administration of the fertiliser subsidy scheme. Under the earlier scheme a co-operative Society which obtained fertiliser on the 33½ subsidy and sold the

whole or part of it for cash (i.e. at the 50 percent subsidised price) was entitled to a subsidy conversion of such cash sales provided it applied for conversion within 45 days. Similarly with effect from 1. 10. 67 a cultivator who obtained his fertiliser under the 33½ percent subsidy was entitled to a conversion to the higher subsidy if he repaid his entire cultivation loan to the co-operative society in time.

Fertiliser issues made during 1963/64 to 1969/70 (a) for direct payment of cash and (b) under the Credit Scheme are given below with the comparative figures for the previous years.

TABLE XIX

Fertiliser Issue For Cash & Credit - 1963/64 to 1969/70

Year	For Cash	Percentage of Total	On Credit	Percentage of Total
1963/64	39,064	65	21,032	35
1964/65	30,471	72.5	11,575	27.7
1965/66	31,059	76.7	9,429	23.7
1966/67	38,071	72	14,784	28
1967/68	49,862	58.3	34,369	41.7
1968/69	63,157	73.3	22,909	26.7
1969/70	74,016	86.7	11,341	13.3

Source: Department of Agrarian Services

These figures show that sales of fertiliser on credit had decreased by 11,460 tons between 1967/68 and 1968/69 and by a further 11,568 tons between 1968/69 and 1969/70 in spite of the fact that the subsidy was raised from 33½ percent to 50 percent for fertiliser supplied under the Credit Scheme. It would not be incorrect to ascribe part of the reduction in credit sales of fertiliser to the reduction in cultivation loans granted by the People's Bank as a result of the high rate of default which rendered a large number of farmers ineligible for loans in the succeeding cultivation season. The shift of farmers from 'credit' purchases to 'cash' purchases of fertiliser during 1968/69 is seen from the increase of cash purchases from 49,862 tons in 1967/68 to 63,157 tons (an increase of 13,295 tons) and to 74,016 tons in 1969/70.

Table XIX indicates that it is normal for cash sales of fertiliser to be over 72 percent of the total sales except in the years 1963/64 and 1967/68. It would be seen that in these years there has been a significant change in the proportion of 'cash' sales of fertiliser. The increase in credit sales of fertilisers bear some relation to the increase in the total volume of credit obtained under the agricultural credit schemes.

As in previous years the Multi-purpose Co-operative Societies continued to be the main suppliers of fertiliser to the farming population. This is seen from the following Table:

TABLE XX
Issue of Fertiliser

Year	Co-operative Societies (tons)	Cultivation Committees (tons)	Authorised Dealers (tons)	Individual Buyers (tons)	Total (tons)
1966/67	39,540	3,093	2,774	7,448	82,855
1967/68	61,039	2,063	6,599	14,530	84,234
1968/69	65,054	2,411	7,721	10,880	86,066
1969/70	63,178	2,181	10,761	9,237	85,357

Source: Department of Agrarian Services

The co-operative societies obtained their fertiliser from the Department on loans granted by the People's Bank or by direct payment in cash. Apart from the fertiliser subsidy, other subsidies play an important role in encouraging agricultural production both in the plantation and peasant sectors.

The following Table (XXI) summarises the rates of subsidy on inputs given in the late 1968 and early 1969 for various crops:

TABLE XXI
Rates Of Subsidy On Inputs In 1968/69

Crop	Operation	Subsidy per Unit
Tea	Replanting	Rs 3,750 per acre ¹
	Fertiliser	Rs. 400 per acre over 5 years ²
	Tea Machinery	50% subsidy at normal interest rates
Rubber	Replanting	Rs. 1,400 or Rs. 1,500 per acre ³
Coconut	Seedlings	70% of cost
	Fertiliser	50% of cost
Rice ⁴	Fertiliser	50% of cost
	Seed Paddy	Rs. 2 per bushel
	Seeders and Weeders	40% of cost
	Tractor hire	Government tractor stations operated at loss
	Irrigation	Variable ⁵

1. Subsidy paid from the self-financed Tea Fund.
2. The subsidy at an annual average rate of Rs. 80 per acre per annum is for holdings under 100 acres and intended to cover 50% of the cost of fertiliser.
3. The higher rate is for estates of under 100 acres.
4. Neither credit provision nor extension services has been included as subsidised inputs.
5. Under major schemes an attempt was made to charge for maintenance on a per acre basis at a rate varying from Re. 1 to Rs. 5. These charges have been waived after 1970. The subsidy involved in providing irrigation for major schemes may, however, be equivalent to around Rs. 200 per irrigated acre per year.

Source: Ministry of Agriculture, Agricultural Development Proposals Colombo, 1966, and Implementation Programme and Targets, 1967-1968.

The Government also operates the food subsidy in rice and sugar. 2 lbs. of rice per week are given free to every member of a co-operative society whilst another 2 lbs. is sold at 50 cents per pound to each member of a Co-operative Society.

5. Appraisal Techniques

Loans are given only to members of co-operative societies. Under the new Agricultural Credit Scheme the maximum borrowing allowed to a cultivator is restricted by the number of shares (Rs.50 each), he holds and depends on whether he cultivates for a single season or two seasons in the year.

The following Schedule shows the maximum borrowing allowed to a cultivator up to 10 acres. Prior to the introduction of the New Agricultural Credit Scheme, an individual cultivator was entitled to obtain a sum not exceeding Rs. 175 per acre up to a maximum of 6 acres for the first cultivation season, and where there were two cultivations a year, for the second season his total indebtedness could rise to $1\frac{1}{2}$ times this sum. Under the present Scheme, the limit of Rs. 175 per acre was increased to Rs. 220 and the maximum of 6 acres was raised to 10 acres.

No. of shares held	Acreage to be cultivated	Maximum entitlement for 1st season Rs.	Total IMCL* for the year Rs.	Maximum entitlement for 2nd season
One	One	220(1½ x Rs. 220)	330	Difference between the IMCL and the indebtedness at time of lending
One	Two	440	660	
One	Three	660	990	
One	Four	880	1,000	
One	Five	1,000	1,000	
Two	Four	800	1,320	
Two	Five	1,100	1,650	
Two	Six	1,320	1,980	
Two	Seven	1,540	2,000	
Two	Ten	2,000	2,000	
Three	Seven	1,540	2,310	
Three	Eight	1,760	2,640	
Three	Nine	1,980	2,970	
Three	Ten	2,200	3,000	
Four	Ten	2,200	3,300	

* IMCL - Individual Maximum Credit limit.

On receiving individual loan applications the committee of the co-operative society will consider the eligibility of each applicant for loans on the basis of his individual maximum credit limit and his credit needs for cultivation. The Co-operative Inspector is required to test check 10 percent of these applications and also to see that the society deals with them promptly. The Committee will thereafter prepare the Composite Loan Application Form of the Society and also summon a General Meeting for determining a society's maximum credit limit. All this should be done early enough to ensure that this loan application (duly endorsed by the Co-operative Inspector to the effect that the loan applied for, is within the maximum credit limit approved by the Assistant Commissioner for Co-operative Development) reaches the Bank at least $1\frac{1}{2}$ months prior to the commencement of the cultivation season.

Just before the commencement of the season the Committee of the Society will study the Production Plan prepared at the village level by the Cultivation Committee. The Government Agent who is also the Deputy Commissioner of Agrarian Services and Deputy Commissioner of Co-operative Development is required to supervise very closely the village level production plan and nominate an officer as his agent for certifying the village level plans and the loan applications prepared by the co-operative society. The Village Level Officer's certificate is given on behalf of the government and it is the basis on which a credit guarantee is given by the Central Bank on behalf of the government.

After the study of the Production Plan by the Committee of the Society and other officers responsible for the preparation of the plan, a revised loan application on the basis of the condition for cultivation actually prevailing, is prepared and sent to the Bank together with the bond and usance note.

Appendix 7 gives a model time table of operations relating to loan applications in the Dry Zone of Sri Lanka where the North East monsoon commences about October. Appendix 8 gives the manner in which the maximum credit limit of a Society should be assessed.

Part of the loan is in cash and part in kind. In regard to loans in kind, the procedure adopted after 1.9.67 was as follows:

(a) Fertilisers

The usual application form for fertiliser loans in kind will be perfected by the Society and despatched to the Bank together with the Revised Loan Application Form (Form No. 2). The Bank in granting the loan will despatch the fertiliser application form to the Assistant Commissioner of Agrarian Services requesting him to supply fertiliser at the 50 percent subsidy rate up to a value not exceeding a specified sum and to send the Bank his bill and the society's receipt for supply. The Assistant Commissioner of Agrarian Services will thereupon check the application, arrange for supply and prepare and remit to the bank his bill and a copy of his Storekeeper's Sale Invoice together with the acknowledgment of the duly authorised representative of the society. (For convenience the Asst. Commissioner of Agrarian Services may send fortnightly one bill in respect of several transactions with different societies). The bank will then pay the bill, debit the relevant society's account and despatch to the society a debit note showing the amount of the fertiliser loan, and quoting reference to the relevant Sale Invoice.

(b) Seed Paddy

After 31st August 1967 seed paddy loans are given in cash, excepting loans for certified seed paddy which will be given in kind for distribution only among farmers selected by the District Agricultural Extension Officer. Where a society requires such a loan in kind, the requirement should be separately included in the revised loan application form, and the quantity and variety needed and the source of supply given in an annexe to that form. Of course, it will be necessary for the society to ensure that the certified seed paddy required is reserved by the Agricultural Instructor for the members who are to receive it. When the bank decides to grant such a loan, it will forward to the Assistant Commissioner of Agrarian Services the annexe referred to and request him to supply the seed paddy and remit to the bank his bill together with the society's receipt for the commodity. The bank will subsequently pay the bill, debit the society's account and send the society a debit note showing the quantity and value of the seed paddy. The Assistant Commissioner of Agrarian Services will also send to the Divisional Agricultural Extension Officer a monthly return of issues of certified seed paddy under this Scheme.

(c) **Agro-chemicals**

In applying for insecticides and fungicides as loans in kind, the society will state in an annexe to the revised loan application from the recognised institution from which it proposes to make the purchase, and give the varieties, quantities and approximate value of the agro-chemicals required. The bank will request the Assistant Commissioner of Agrarian Services to arrange for the supply from a suitable institution and remit the bill and the Society's receipt for the supply. Thereafter the bank will pay the bill, debit the society's account and despatch a debit note to the society giving particulars of the loan. The Department of Agrarian Services will study the market conditions relating to the more popular varieties of agro-chemicals and take the necessary steps to see that these commodities would be available in each district at a reasonable price. Where a society anticipates any difficulty in obtaining timely supplies of the required variety through this procedure, it is at liberty instead, to apply for a cash loan for this purpose

(d) **Barbed wire and other loans in kind**

A procedure similar to that for the supply of agro-chemicals will be followed in such cases.

Under the Extended Credit Scheme and the Rural Banks Scheme the usual technique adopted depends mostly on the personal knowledge the committee of a co-operative has of the individual member. So long as the member is not in default and is acceptable, he will be granted loans according to the purpose of borrowing and within the limits allocated to him.

F. **Collection**

1. **Repayment Record**

The repayment of debt shows a deteriorating trend and the balance outstanding has increased progressively. The following Table (Table XXII) shows the quantities of loans granted, recoveries made and the balance outstanding, for loans given out by government departments (as distinct from those schemes financed by the People's Bank.) It is seen from the Table that in the year 1963/64 there was a sharp increase in the loans granted. This was a result

of making only those members who were in default ineligible for loans rather than the earlier practice of debarring the entire membership of a co-operative society which had defaulted in their repayments; the other reason being the extension of the credit limit per member. The amount of recoveries, and the balance outstanding also shows a sharp rise during the same year.

TABLE XXII

Loans Granted to Co-operative Societies, Amount Recovered Annually And Balance Outstanding At End of Each Year

Year	Loan Granted	Recoveries	Balance Outstanding
	Rs.	Rs.	Rs.
1947/48	4,356,000	2,544,000	1,812,000
1948/49	5,563,000	2,040,000	5,335,000
1949/50	4,247,000	3,654,000	5,924,000
1950/51	6,695,000	4,147,000	8,472,000
1951/52	8,836,000	7,420,000	9,888,000
1952/53	15,864,000	7,438,000	18,324,000
1953/54	11,709,000	11,305,000	18,728,000
1954/55	14,674,000	15,630,000	18,372,000
1955/56	18,370,000	17,512,000	19,230,000
1956/57	21,934,000	21,787,000	19,377,000
1957/58	13,809,000	12,544,000	20,642,000
1958/59	18,382,000	13,022,000	26,022,000
1959/60	13,961,000	13,815,000	26,148,000
1960/61	11,406,000	13,395,000	24,159,000
1961/62	12,618,000	13,134,000	23,643,000
1962/63	10,667,000	9,462,000	24,848,000
1963/64	34,588,000	16,200,000	43,200,000
1964/65	27,555,000	16,517,000	54,238,000
1965/66	28,138,000	21,324,000	61,052,000
1966/67	32,307,000	14,825,000	78,534,000
1967/68	2,630,000	1,146,000	75,018,000
1968/69	3,078,000	1,527,000	76,569,000
1969/70	1,367,000	1,140,000	76,796,000
1970/71	225,000	397,000	76,624,000*
Total	322,979,000	246,315,000	—

* Of this sum, loans granted prior to I. 10. 58 amounting to Rs. 5,784,000 have been written off leaving a balance of Rs. 70,840,000 outstanding.

Source: Department of Agrarian Services

Table XXIII shows the overall position of loans granted and repayments under the New Agricultural Credit Scheme for paddy loans i. e. from the inception of the Scheme in 1967 to 1970.

The deteriorating level of voluntary repayments have been a significant feature accounting for the decline in the coverage of the Scheme. Voluntary repayments which were 70.0 percent of loans granted in the Maha Season of 1967/68 and 54.5 percent in the Maha Season of 1968/69 declined further to 47.7 percent in the Maha Season of 1969/70. Voluntary repayments in the Yala Season declined from 79.6 percent in 1968 to 76.8 percent in 1969.

In the previous years the total recoveries were higher than voluntary repayments when the value of rice ration coupons hypothecated under the scheme are taken into account. (In Sri Lanka rice is rationed and issued on coupons to members of co-operative societies). In 1970 however, with the government's decision to restore hypothecated rice ration coupons to the defaulting borrowers, total recoveries did not exceed voluntary repayments.

The broad picture emerging from this Table is that (a) the decline in the use as well as in the repayment of credit began in the very next year after the commencement of the scheme, (b) the declining trend in both use and repayments of credit has become pronounced in later years and (c) the decline in repayments has been at a much faster rate than the decline in the use of credit.

Since the defaulting borrowers render themselves ineligible for further loans under the Scheme, the utilisation of credit falls along with a decline in repayments. However, the more pronounced decline in the rate of repayment was found to be mainly due to new borrowers utilising the Scheme and due to borrowers who had defaulted on past loans borrowing in other's names. The district-wise position as regards repayment is shown in Table XXIV.

The districts of Kandy, Polonaruwa, Kegalle and Badulla have consistently maintained high levels of repayments as shown by Group A in Table XXIV. The districts included under Group B recorded very high levels of repayments in the first two seasons of operation of the scheme, showed a slight deterioration in the Yala of the second year and from the third year onwards the repayments were very poor. The districts under Group C have almost a consistently low record of repayments.

This position is also confirmed by the Annual Report of the Central Bank 1970, which states that the level of voluntary repayments in Maha 1969/70 were lower than in the previous Maha in most districts. The levels in districts like Kandy, Matara, Polonnaruwa, Moneragala, Ratnapura, and Kegalle which were higher than in the previous season, also declined markedly in some cases. In Matara the level dropped to 59.43 percent of loans granted from 91.95 percent in Maha 1968/69; in Moneragala, the level declined from 77.29 percent, to 58.47 percent.

Subsidiary Crops

The district-wise position for loans granted and the amount recovered for 1968/69 for subsidiary crops (according to the Annual Report of the Central Bank for 1970) are shown in Table XXV annexed.

As can be seen from this Table recovery levels have been lower in 1969/70 than in 1968/69. Recoveries were the highest in the case of loans for potatoes with 72.38 percent of loans granted, while groundnuts and maize recorded the lowest recovery rate of 15.38 percent.

The recovery of loans in the Jaffna District has been lower at 65.2 percent of loans granted as against 89.3 percent in 1968/69. Recoveries in the Baddulla District amounted to 48 percent as compared with nearly 90 percent in 1968/69.

In 1971 the Central Bank conducted a survey⁶ of farmers who had defaulted in their repayments of loans taken under the new Agricultural Credit Scheme. The survey covered the period 1.9.67 to 31.12.70. This sample survey threw light on the causes of default as well as the attitudes of farmers to their borrowings and repayments. The following Table contains some of the relevant data.

TABLE XXVI
Income, Area Cultivated & Borrowings per Family
(Defaulting Unit) per season

Income Group of family per season	% of defaulters	Area Cultivated per season per family	Av. income per season per family: (all sources)	Av. Bor- rowing per season per family New Agricultural Loan	Av. Bor- rowing per season per family	All loans as % of income
			Rs.	Rs.		
0- 300	5.6	1.02	196.2	61.2	108.0	55.0
301- 600	18.1	1.61	473.2	96.6	170.4	35.5
601-1500	47.4	1.93	1005.0	112.8	214.2	21.3
1501-3000	19.6	3.05	2181.0	184.2	406.2	18.6
3001-4500	5.0	3.42	3570.0	195.6	566.4	15.8
4501-6000	2.6	5.61	5271.6	318.0	1087.8	20.6
Over 6000	1.7	14.30	13983.6	444.0	1877.4	13.4
Total	100.0	2.41	1551.0	136.2	306.0	19.7

Source: Defaults Survey, Central Bank of Ceylon.

The average debt (all loans) is nearly 20 percent of the average income, and except for the two lower income groups, the proportion of debt to income deferred little from the average.

6. Report of the Survey of Defaults in the repayment of new agricultural loans - conducted by the Department of Economic Research - Central Bank of Ceylon.

Nearly 95 percent of the defaulters were paddy farmers and they had taken 97 percent of the loans granted. The total area cultivated was 14,190 acres or on an average of 16.9 acres per farmer defaulter for the 7 seasons. Thus the average per season works out to 2.41 acres per defaulter.

TABLE XXVII

Non-Agricultural Loans - Amount borrowed, repaid and overdue by income groups per defaulting Unit

Income group per season	Amt. borrowed as % of income	Amt. repaid with interest as % of Income	Amt. overdue with interest as % of amount borrowed
0 - 300	31.2	16.5	63.1
301 - 600	20.2	12.0	52.0
601 - 1500	11.2	6.6	52.5
1501 - 3000	8.4	4.6	56.5
3001 - 4500	5.5	3.2	54.1
4501 - 6000	6.0	3.1	56.2
Over 6000	3.2	1.7	56.0
Total	8.8	5.0	54.3

Source: Defaults Survey, Central Bank of Ceylon 1972.

The amount overdue was 4.8 percent over income while the amount borrowed was 8.8 percent. The gap between the amount borrowed and amount repaid as a percentage of income increases with a decrease in income. This is true of all loans.

Reason for Default

The Defaulters Survey made it possible to identify 17 causes of default on the basis of answers given by the informants. The following Table gives the percentage distribution of defaulters, the amount overdue under the new Agricultural Credit Scheme and the amount overdue in respect of all loans taken classified by each of the causes for default.

TABLE XXVIII
Amount Overdue Classified by Causes
of Default

Cause of Default	Defaulters		New Agricultural loan Overdue	
	No.	% of Total	Amount Rs.	% of Total
1. Crop failed	222	26.4	135,931	32.8
2. Low Income	145	17.2	66,968	16.2
3. No intention to repay	101	12.0	80,503	14.6
4. Illness/Death	75	8.9	36,680	8.8
5. Indifference of Co-operative Officials	74	8.8	26,122	6.3
6. Malpractices of Co-operatives	66	7.8	20,803	5.0
7. Heavy Expenditure (legal, ceremonial etc.)	19	2.3	8,674	2.1
8. Think Loans may be written off	17	2.0	6,603	1.6
9. Misuse of Loans	16	1.9	7,188	1.7
10. Think loan will be outright grant	14	1.7	7,163	1.7
11. Lack of Irrigation facilities	13	1.5	4,885	1.2
12. Heavy Indebtedness	10	1.2	5,451	1.3
13. Malpractices of Government Officials	5	0.6	3,234	0.3
14. Heavy Capital Expenditure	4	0.5	2,915	0.7
15. Unemployment	3	0.4	1,005	0.2
16. Political Interference	3	0.4	1,216	0.3
17. Withdrawal of facilities to surrender Rice Ration Book	2	0.2	75	—
18. Other	52	6.2	19,282	4.7
Total	841	100.0	414,698	100.0

Source: Defaults Survey, Central Bank of Ceylon.

The two most important causes are low incomes and crop failure. These two are related to each other and accounted for 49 percent of the loans overdue. Of the defaulters 8.8 percent reported that if the Co-operative Officers had not shown indifference but had been active they would have repaid their loans in time.

It is not surprising to note that 12 percent of the defaulters had no intention to repay while another 2.0 percent thought that some day the loans will be written off. This would be a natural consequence of the waiver of debt given in 1966. Still another category of defaulters considered these loans to be outright grants.

This could mean that nearly 18 percent of the overdue loans in the surveyed sample will not be returned because of these attitudes by the borrower.

Crop Failure

Crop failure has been the most common cause of default. The area affected by crop failure was 19.1 percent of the cultivated area.

The following Table gives the present distribution of area cultivated, area of crop failure, amount borrowed and amount overdue, during the reference period of the Survey of Defaults (i.e. from 1.9.67 to 31.12.70).

TABLE XXIX
Percent Distribution of Area Cultivated
Area of Crop Failure. Amount Borrowed
And Amount Overdue

Size of Area Cultivated (Acres)	Area Cultivated %	Area Crop Failure %	Crop Failure as a % of area Cultivated	Amount Borrowed as % of Total	Amount Overdue as % of Total
0 - 160	-	0.1	61.3	0.4	0.8
161 - 320	0.2	0.2	29.6	0.6	0.9
321 - 480	0.4	1.0	45.3	1.0	1.2
481 - 600	1.1	1.7	28.2	2.0	3.1
601 - 800	0.6	0.8	24.5	1.6	1.9
800 - 1600	10.4	12.2	22.4	13.5	15.2
1601 - 2400	14.3	18.1	24.1	13.8	15.6
2401 - 3200	14.7	16.8	21.9	15.6	15.1
3201 - 6400	34.2	30.3	16.9	35.6	29.7
6401 - 12800	14.3	12.6	16.9	12.8	13.9
Over 12800	9.8	6.2	12.1	3.1	2.6
Total	100.0	100.0	19.1	100.0	100.0

Source: Defaults Survey, Central Banks of Ceylon.

There does not seem to be a uniform distribution of the crop failure on a percentage basis. The burdens imposed by such losses would be heavier among the lower income groups. Except in case of the highest income groups, crop failure affected the repaying capacity of all other income groups by more than the amount that was overdue.

Low incomes have also accounted for 16.2 percent of the overdue loans. It is the most important economic feature and it stems from low productivity of land and labour combined. Low yields have been the cause of low incomes. The average yield per defaulting cultivator was 37 bushels per acre which was 65 percent of the national average. District-wise variations were very wide. Generally the Colombo and Kalutara Districts had low yields while Polonnaruwa and Mannar had very high yields. The yield data obtained in the survey are compared below with the average yield in each district obtained from crop cutting surveys done by the Department of Census and Statistics.

Several reasons were given by the cultivator for these low yields. These were:

1. Land was not suited to paddy cultivation but under the existing circumstances they could do nothing else with that land. Unsuitability of land for paddy cultivation arose from excessive water-logging and lack of drainage facilities in the South West while lack of irrigation facilities mostly accounted for low yields in the dry zone belt.
2. Inputs are either not available in adequate quantities or not available at the time he wants it most.
3. Lack of Extension Services. In most areas the Extension Officers had not visited the farmers. The farmer had no understanding about modern scientific technology. In the absence of help of a scientific nature from the Extension Officers, he relies on his own "hunches" or he is influenced by his neighbours about modern methods of production.

TABLE XXX

**Paddy – Maha Yields in 1970/71 – Defaulters Survey
Data Compared with Average Yields**

District	Average Yield (Survey of Defaults)	Average Yield (Department of Census & Statistics)
Colombo	28.8	38.85
Kalutara	28.0	33.18
Galle	28.1	28.50
Matara	34.5	29.85
Hambantota	31.4	40.95
Kandy	35.9	35.98
Matale	32.3	63.25
Nuwara Eliya	30.3	93.92
Badulla	26.0	66.42
Moneragala	39.7	50.95
Kegalle	37.6	61.80
Ratnapura	35.7	44.85
Kurunegala	34.0	48.62
Amparai	34.5	52.38
Polonnaruwa	45.7	89.15
Anuradapura	39.0	58.32
Puttalam	23.7	44.92
Batticaloa	37.2	46.90
Vavuniya	32.3	43.15
Mannar	48.6	52.48
Trincomalee	29.9	55.60
Jaffna	35.8	33.00
Total	37.0	52.21

Source: Defaults Survey, Central Bank of Ceylon.

4. Lack of supervision by members of Cultivation Committees or Cultivation Officers or Colonisation Officers.
5. Since the yields are low the farmers find it difficult to work the land systematically because of monetisation of rural areas and the shortage of labour in certain areas.
6. Cost of inputs are rising and the farmers are unable to utilise the most efficient combination of inputs.
7. Farmers are not properly organised to employ their own advisers. They do not have sufficient knowledge of scientific farming and they have no clue as to how they could assess their success or failure. They are unable to check on progress. Only when the crop has failed can they put the blame on some extraneous factors. No education or Extension is received in methods of scientific farming.

The Defaults Survey states that "The bulk of these defaulters are generally the small farmers to whom agricultural credit is another form of static credit as it does not help them very much to raise their incomes without other forms of assistance. Very often they are neither better off nor worse off at the end of the credit period"

According to this Report, interest payments are neither regular nor are they paid separately from capital repayments. Very often only a portion of the interest charges are paid back along with the capital. There were instances where borrowers defaulted only in the payment of interest charges. Interest payments on the New Agricultural Credit Scheme Loans formed 4.2 percent of the amount borrowed. There was only a small deviation from this average when interest payments were classified by the size of the loan.

It could be said that the size of the loan had little influence on the actual interest payments. Evidently the amount paid as interest was very much less than the amount stipulated. There was a larger proportion of interest charges due than were actually

settled. On the average, interest charges due were 7.4 percent of the amount borrowed. Clearly the sum of interest charges paid and due was almost the same as the maximum leviable by the Co-operatives on loans not repaid in time. However, the small borrowers and medium borrowers had defaulted on loans prior to the reference period thus causing the interest rates paid and those overdue to go above the legal amount that could be charged. The interest rates thus varied from 7.6 percent to 20.5 percent of the amount borrowed.

Interest charge of over 12 percent of the amount borrowed is certainly too high when compared with the interest charged on consumption and other loans. These other interest charges varied widely depending on the nature of security, type of borrower and the type of lender. Table XXXI below shows the interest charges as percent of the amount borrowed and the interest charges that are due, classified by income groups.

TABLE XXXI
Interest Payments Per Defaulting Unit
 (Rupees per month)

Income Group Rs. p m.	Amt. Borrowed		Amt. paid as Inter- est (NA Loans) Rs.	Interest paid other Loans	Interest due NA Loans Rs.	(NA Loan) Payment of interest as % of amount borrowed	Total
	NA Loans Rs.	All Loans Rs.					
-50	10.2	18.0	0.5	0.6	1.2	4.9	16.7
51-100	16.1	28.4	0.6	1.3	1.2	3.7	11.2
101-250	18.8	35.6	0.8	3.0	1.4	4.3	11.7
251-500	30.7	67.7	1.2	6.9	2.3	3.9	11.4
501-750	32.6	94.4	1.4	8.9	2.8	4.3	12.9
751-1000	53.0	181.3	2.0	16.3	2.7	3.8	8.9
Over 1000	74.0	312.9	2.2	17.5	4.1	3.0	8.5
Total	22.7	51.0	0.9	4.2	1.7	4.0	11.5

Source: Defaults Survey, Central Bank of Ceylon.

Note: NA = New Agricultural Credit Scheme.

The actual interest payments by size of new agricultural loans indicate that the charges tend to rise with the rising incomes. The difference between the low interest charges and the highest interest charge is not significant. But the amount of interest overdue in respect of both NA loans and all loans forms a high proportion of repayments in the lowest income groups. Payment of interest on New Agricultural Loans as percentage of amount borrowed varied between 3.0 percent to 4.9 percent with a national average of 4.0 percent. Compared to the agricultural loans, consumption loans carried a 16 percent interest charge while other loans on the average had an interest charge of 14 percent. In the case of consumption loans there were instances where the borrower paid nearly 100 percent of the amount borrowed as interest charges, while in the case of other loans (mainly for cultivation purposes) the interest charges varied from about 8 percent to about 45 percent. The low interest payments in the case of agricultural loans as a percentage of the amount borrowed, is mainly due to the fact that interest payments have been very irregular. The interest charges that have been paid are very much less than the amounts due from loans. Very often the cultivator does not pay the interest charges but only the capital and the co-operative society merely accepts the capital repayment as what is due and calculates the interest charges at the end of the contract. These interest charges that are due on agricultural loans varied from 7.6 percent to 17.5 percent while the national average was 7.4 percent. Interest charges that are shown here as due also refer to the loans that were taken during the earlier period prior to the reference period of the Survey,

2. Methods of Collection

Repayment is made both in cash and in kind. Recoveries in kind are made by the co-operatives when the producers sell to the co-operative societies. The societies will deduct the loan instalments due and pay the balance to the producer. Prior to 1971 the producer was able to sell his paddy in the open market and to settle his loan instalments in cash to them. But after the forming of the Paddy Marketing Board in 1971 the Board has been given full authority to carry on the business as purchaser, seller, supplier, distributor, huller, miller or processor of paddy

and provide services in connection therewith. The Board was constituted in March 1971 and it started paddy purchases in December 1971 in the Matara District and by the end of September 1972 it became the sole purchaser of paddy in all districts of Sri Lanka. The paddy is purchased by the Board through co-operative societies. Section 9 of the Paddy Marketing Board provides for recovery of money due to the government and to co-operative societies from the producer. The co-operative societies could deduct the money owed to them by the producer and pay the balance.

The co-operatives buy the paddy at Rs. 14 per bushel and deliver the paddy so bought to the paddy stores of the Paddy Marketing Board. These stores, after testing the paddy for quality, issue a goods receipt to the societies. These goods receipts are discounted at quarter percent interest at the various branches of the People's Bank. Afterwards cash receipts are sent to the Paddy Marketing Board for reimbursement. The co-operatives, if necessary, obtain the finances to purchase the paddy from the People's Bank and they are also entitled to a transportation fee of 60 cents per bushel of paddy. In its budget for 1973, the Government has provided a further inducement for the sale of paddy to the Paddy Marketing Board. The price per bushel has been increased to Rs. 15, but the additional rupee will not be paid direct to the producer but deposited in his account into a Provident Fund.

3. Special Enforcement Procedures

If any co-operative or its members default in the repayment, the Commissioner of Co-operative Development has the authority to appoint an arbitrator to decide on an Award. Up to 1968/69, 10,634 disputes were referred to arbitration. Arbitration particulars as at 1968/69 is shown in Table XXXII.

TABLE XXXII
Arbitration Particulars

	Number	Value in Rupees
Arbitration pending at the beginning of the year . .	10,634	9,204,701
References to Arbitration during the year	2,299	4,796,392
References decided during the year . .	1,738	2,766,518
(a) Official Arbitrators . .	853	793,284
(b) Unofficial Arbitrators . .	885	1,973,234
Appeals pending at the beginning of the year	234	931,192
Appeals submitted during the year . .	99	266,046
Appeals allowed . .	19	42,665
Appeals dismissed . .	31	82,338

(Source: Administration Report of the Commissioner of Co-operative Development, 1968/69).

With effect from 16th January 1969, provision was made under the Co-operative Societies (Temporary Provisions) Act No. 43 of 1968 to remove unfit members and their employees. The Commissioner of Co-operative Development has the power to cancel the registration of the societies and also to liquidate defunct societies. At the end of 1968/69 there were 2,775 societies under liquidation.

4. Re-Scheduling

With the introduction of the Agricultural Credit Scheme in 1967, the government decided in the case of both Societies and their individual members (a) to waive all loans granted prior to 1.10.58 and outstanding from societies as at 31.10.66 and to waive the corresponding loans outstanding from members to societies, (b) to waive all loans granted to societies between 1.10.58 and 30.10.66, where defaulting repayments have been due to total or partial crop failure and waive corresponding loans outstanding from members to societies, (c) where a society's loan repayments during the first three years of the operation of the new Scheme were satisfactory, to consider waiver of its remaining debts to the Department of Agrarian Services, and where such waiver is effected to give a corresponding waiver of related loans outstanding from members.

Of the loans granted by the Commissioner of Agrarian Services to Co-operative Societies prior to 1.10.58 (see (a) above), all sums outstanding on 1.11.66 were to be written off; and subsequent repayments were to be credited to other loan accounts of the debtor society. Where the loans so written off have been granted against the security of any land, building or machinery (for example, loans for the construction of go-downs or for the purchase of tractors) the Department of Agrarian Services could reserve the right to seize the asset so hypothecated and where desirable rent it out. In the case of default due to crop failure (see (b) above), this was to be decided by a Committee consisting of the District Agricultural Extension Officer, the Assistant Commissioner of Co-operative Development, the Assistant Commissioner of Agrarian Services of the District and one representative of the Co-operative District Union.

G. Cost and Finance

I. Portfolio of Profits and Losses

As at the end of 1968/69, the number of Multi-purpose Co-operative Societies showing profits was 47.8% of the total number of active societies. The corresponding figure for the previous year, i.e. 1967/68 was 43.9%. In 1967/68, 1989 Multi-purpose Co-operative Societies made profits amounting to Rs. 4.3 million whilst 3,119 societies suffered losses totalling Rs. 5.5 million. The Table below shows the profits and losses of these societies according to their functions for the year 1968/69: (i.e. before the reforms that took place in 1971).

TABLE XXXIII

Multi-purpose Co-operative Societies-Profits & Losses

Functions	Net profit		Net Loss	
	Number	Amount	Number	Amount
Consumer functions only	524	896,000	463	660,000
Agricultural functions only	208	260,000	285	498,000
Several functions	1,331	3,699,000	1,498	4,715,000
Others (including defunct Societies)	60	30,000	705	74,000
Total	2,123	4,885,000	2,951	5,947,000

Source: Administration Report of the Commissioner of Co-operative Development, 1968/69).

As can be seen from the above Table, there has been an improvement in 1968/69 in the number of Societies earning profits and the amount of profit earned during this year.

The profits and losses of Co-operative Societies according to type of Societies as at 1968/69 are given in the Table below.

TABLE XXXIV

Profits and Losses according to type of Societies

Type of Society	Profits		Losses	
	Number	Amount	Number	Amount
		Rs.		Rs.
(a) Primary Societies				
Multi-purpose	2,123	4,884,462	2,951	5,946,958
Industries	426	1,040,137	791	149,792
Credit Unlimited	1,509	429,604	2,066	45,537
Credit Limited	190	418,298	88	6,612
Thrift	172	553,920	187	6,641
Stores	307	1,076,429	322	322,173
Agricultural Production & Sale	25	48,441	94	101,543
Coconut	8	416,328	11	51,763
Tea	6	135,814	12	12,022
Rubber	1	1,917	3	5,102
Tobacco	36	1,791	59	54,840
Dairy	10	40,636	24	20,020
Other Agricultural	18	37,806	296	69,932
Fisheries	87	96,065	197	129,414
Labour	58	81,129	119	184,749
Schools	1,053	117,915	991	30,080
Other Primary	58	553,191	117	178,220
Total Primary	6,087	9,933,883	8,328	7,315,388

TABLE XXXIV (contd.)

Type of Society	Profits		Losses	
	Number	Amount	Number	Amount
(b) Secondary				
District Banks	7	562,376	—	—
Multi-purpose Unions	100	7,130,427	25	349,071
Industrial Societies Unions	23	1,205,478	14	117,723
Agricultural Societies Unions	2	245,827	8	2,293
Fish Sales Unions	—	—	1	18,987
District Unions	8	52,944	16	164,933
Credit Unions	2	356	67	447
Ceylon Agricultural Producers' Societies Union	—	—	1	158,713
Ceylon Coconut Producers' Societies Union	—	—	1	55,164
Ceylon Industrial Societies Union	—	—	1	49,308
Ceylon Consumers' Union	1	11,560	—	—
Other Unions	5	29,344	3	16,456
Total Secondary	148	9,238,312	137	933,095
Federation	1	103,956	—	—
Grand Total	6,236	19,276,151	8465	8,248,483

(Source: The Administration Report of the Commissioner of Co-operative Development, 1968/69).

As can be seen from the Table, the number of Multi-purpose Co-operative Societies that have shown a loss is more than the number of Societies that have shown profits.

According to the Administration Report of the Commissioner of Co-operative Development, the financial turnover of Co-operatives in Sri Lanka during the period 1968/69 was Rs.2,146.0 million which is Rs 93.2 million more than that of the previous year. It should be borne in mind that the volume of business transacted by the

Co-operatives is much more than that reflected in the above figures as rice is distributed free by them. Assuming the price per measure to be Re. 1, the estimated value of sales of rice is Rs. 450.0 million. The total financial turnover would then be Rs. 2,596.0 million.

The turnover of societies dealing with production, sales and purchase and of the corresponding sections of the Multi-purpose Societies amount to Rs. 309.2 million as against Rs. 283.0 million in the previous year. The Unions dealing with production and sales had a total turnover of Rs. 43.5 million of which the turnover of Industrial Unions (mainly Textile Unions) was Rs. 36.1 million.

2. Administrative Costs

It is not possible from available statistics to ascertain the cost per loan given out by the co-operative societies. Credit is only one of the functions of a multi-purpose co-operative society and as such the available data does not make it possible to calculate the average cost per loan given out by them.

The recent reorganisation of the Co-operative Movement in 1971 amalgamated the number of co-operative unions and multi-purpose co-operative societies existing prior to 1970 and at present there are only 373 Primary Co-operative Societies controlling more than 10,000 branches distributed all over the Island.

3. Beneficiary Savings

According to the present scheme the beneficiaries are not required to accumulate savings or equity investment. However, if farmers require their individual maximum credit limit to be raised and also if they possess the required number of acres (not exceeding 10 acres) it is possible for them to purchase further shares with any savings that they may have. It is difficult to estimate the extent of "savings" in the rural sector as much of it is nonmonetised and may go into a wide range of investments such as capital improvements of land, wells, housing and so on. From the data available in regard to the capital of co-operative societies, it does not appear that there has been any appreciable flow of savings into these societies, and that farmers have saved and significantly increased their share capital in the societies. But the fixed savings deposits in rural banks have shown an increase over the years.

The savings or equity investment made by peasant farmers does not play an important role in the internal finances of the Rural Credit Programme. Most of the financing of the Credit Programme is undertaken by the People's Bank. •

4. External Finances

The credit requirements of the co-operative societies were met by the following institutions:

- (a) People's Bank;
- (b) Co-operative District Bank;
- (c) Government Departments –
 - (i) Land Commissioner's Department;
 - (ii) Fisheries Department;
 - (iii) The Agrarian Services Department;
 - (iv) The Co-operative Department; and
 - (v) The Labour Department.

The following Table indicates the Capital Structure of Co-operative Societies as at 1968/69:

TABLE XXXV

Capital Structure of Co-operative Societies as at 1968/69

	Primary Societies				Secondary Societies		
	Stores	MPCS	Others	Total	MPCS Unions	Others Exclu- ding Banks	Total
	(Rs. Millions)						
(a) Owned Capital Paid-up							
Share Capital	1.8	25.1	33.3	60.2	2.8	0.7	3.5
Statutory Reserves	5.6	24.5	14.5	44.6	17.6	4.3	21.9
Other Funds	0.9	6.4	3.9	11.2	14.3	3.8	18.1
Profits carried forward	2.4	18.4	8.3	30.1	9.9	4.7	14.6
Total	10.7	74.4	60.0	146.1	44.6	13.5	58.1
Less - Deficit	0.9	18.9	7.0	26.8	3.2	.5	3.7
(A)	9.8	55.5	53.0	119.3	41.4	13.0	54.4
Percentage of A on Total (A + B + C)	88.3	27.4	49.1	37.2	53.1	50.0	52.4
(b) Borrowed Capital							
(i) Loans from People's Bank	0.1	39.9	11.7	51.7	14.0	0.1	14.1
(ii) Provincial Bank	0.1	25.1	7.2	32.4	10.3	1.9	12.2
(iii) Government	0.1	64.3	8.1	72.5	3.4	7.9	11.3
(iv) Other Sources	0.5	6.4	6.8	13.7	5.9	1.7	7.6
Total (B)	0.8	135.7	33.8	170.3	33.6	11.6	45.2

TABLE XXXV (Contd.)

	Primary Societies				Secondary Societies		
	Stores	MPCS	Others	Total	MPCS	Others Excluding Banks	Total
	(Rs. Millions)						
(c) Deposits from Crop.							
Institutions	0.1	0.7	1.2	2.0	1.7	0.6	2.3
Individuals	0.3	5.6	1.86	24.5	0.3	0.3	0.6
Government	-	1.8	0.3	2.1	0.1	-	0.1
Other Sources	0.1	3.0	2.1	5.2	0.9	0.4	1.3
Total C	0.5	11.1	22.2	33.8	3.0	1.3	4.3
Percentage of B + C on Total (A + B + C)	11.7	72.6	50.7	62.82	46.8	50.0	47.6
Grand Total (A + B + C)	11.1	202.3	110.0	323.4	78.0	25.8	103.8

(Source: Administration Report of the Commissioner of Co-operative Development, 1968/69).

It could be seen from the above Table that the Primary Societies own 37.2%, and the Secondary Societies (excluding the Co-operative Bank) own 52.4% of their total capital employed. It is interesting to note that the Stores Societies own 88.3% whereas the Multi-purpose Societies own only 27.4% of their respective capital employed.

Most of the credit given out by the Co-operatives is obtained from the People's Bank. All credit given by the People's Bank under the New Agricultural Credit Scheme is guaranteed by the Central Bank. The Central Bank charges half percent of the total loans as premium and undertakes to make good up to 75% of the amount in default on a loan. The Government would undertake to refund to the Central Bank money spent in the discharge of the guaranteed scheme. The People's Bank can also obtain funds from

the Central Bank for this purpose at a rate of $1\frac{1}{2}$ percent interest. The Central Bank offers the guarantee of repayment to the People's Bank on behalf of the government. The following Table shows the debts of the co-operative societies for 1967/68 and 1968/69;

TABLE XXXVI
Debts of Co-operative Societies

(a) The following were the debts of Co-operative Societies to

		1967/68	1968/69
		Rs. Millions	Rs. Millions
(i)	People's Bank ..	57.0	68.00
(ii)	Co-operative District Banks	34.6	45.58
(iii)	Other Co-operative Society		
	Deposits ..	3.1	4.65
(iv)	Local Loans & Development Fund	0.2	0.27
(v)	Government ..	90.4	91.80
(vi)	Members' Individual Deposits	29.0	25.09
(vii)	Others ..	19.9	22.40
		<u>234.2</u>	<u>257.79</u>

(b) The debts of Co-operative Banks were -

(i)	To People's Bank ..	25.2	30.3
(ii)	Government ..	2.4	1.2
(iii)	Societies ..	15.6	13.7
(iv)	Others ..	2.5	2.8
		<u>45.7</u>	<u>48.0</u>

(Source: Administration Report of the Commissioner of Co-operative Development.)

As can be seen from the Table, the People's Bank is by far the biggest creditor of the Co-operative Banks. As far as the Co-operative Societies were concerned, their biggest creditor has been the Government followed by the People's Bank and other Co-operative District Banks.

The total capital of all Primary Co-operative Societies increased during the year 1968/69 by Rs. 31.5 million to Rs. 323.4 million at the end of the year. The total capital of all Multi-purpose Societies was Rs. 202.3 million, which is 66.6% of the total capital of all Primary Societies as against 62.4% in the previous year.

The borrowed capital (loans and deposits held, excluding fixed deposits) was Rs. 204.2 million which is 63.8% of the total capital. The comparative figures for the previous year were Rs. 186.3 million and 64.5% respectively. The borrowed capital of Multi-purpose Societies was Rs. 146.8 million. The Primary Societies owed the People's Bank Rs. 51.7 million; the Co-operative Bank Rs. 32.4 million and the Government Rs. 73.0 million at the end of 1968/69 on account of loans.

5. Institutional Solvency

The People's Bank has been the main source of finance to the Co-operative Movement. As mentioned earlier in the report, the ultimate source of funds for the New Agricultural Credit Scheme is the Central Bank. By the end of 1970 there were 90 Rural Banks in operation. Table XV shows the deposits and loans of Rural Banks from 1965 to 1970

As can be seen from this Table the deposits have grown from Rs. 202,113 in March 1965 to Rs. 16,908,405 as at the end of December 1970. The total number of loans granted has also shown a remarkable increase from 572 in March 1965 to 10,017 as at the end of December 1970.

The Rural Banks also engage in pawning activities and the annexed charts depict the development of pawning activities from 1961/62 to 1968/69.

The Profit and Loss Account of the People's Bank for the year ended 30th September 1969 is given below:

TABLE XXXVII

**Profit and Loss Account of the People's Bank for
the Year ended 30th September 1969**

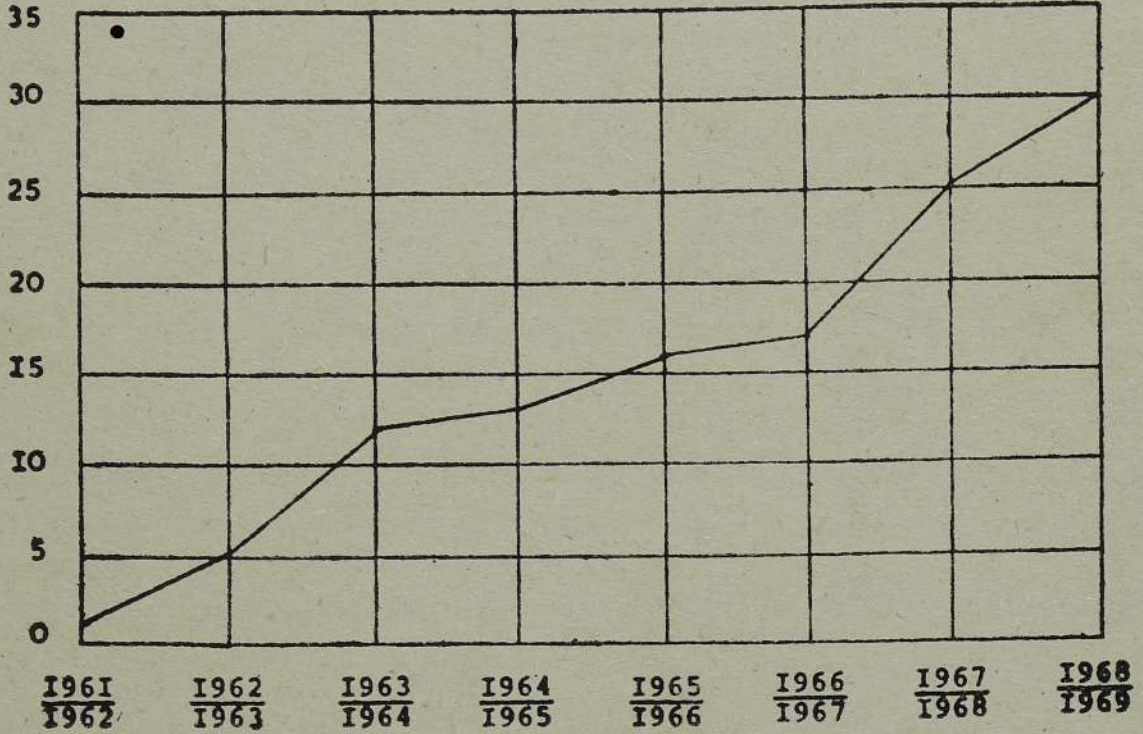
To Dividend Appropriation Account ..	339,120	By Balance Brought forward	Rs. 82,145	
„ Transfer to General and Other Reserve	1,500,000	Add: Over-		
„ Pension Fund ..	60,000	provision		
„ W. & O. P. Fund ..	135,000	for Bonus		
„ Co-op. Education	100,000	in pre-		
„ Rural Bank Deposits		vious		
Guarantee Fund..	250,000	year	<u>Rs. 3,817</u>	85,962
„ Balance carried forward ..	3,764	„ Net Profit after		
		providing for		
		Taxation and all		
		other expenses		
		(including Directors'		
		Fees Rs. 33,450/-)		<u>2,301,922</u>
	<u>2,387,884</u>			<u>2,387,884</u>

6. Foreign Exchange Balances

As rice is the staple food of the people of Sri Lanka and since a part of the requirements of rice has to be imported, any increase in the production of rice will help to conserve the vitally important foreign exchange reserves. The production of rice in Sri Lanka has been increasing as given in Table XXXVIII.

PAWNING Total Lent Annually

Millions
of Rupees



Number of Borrowers

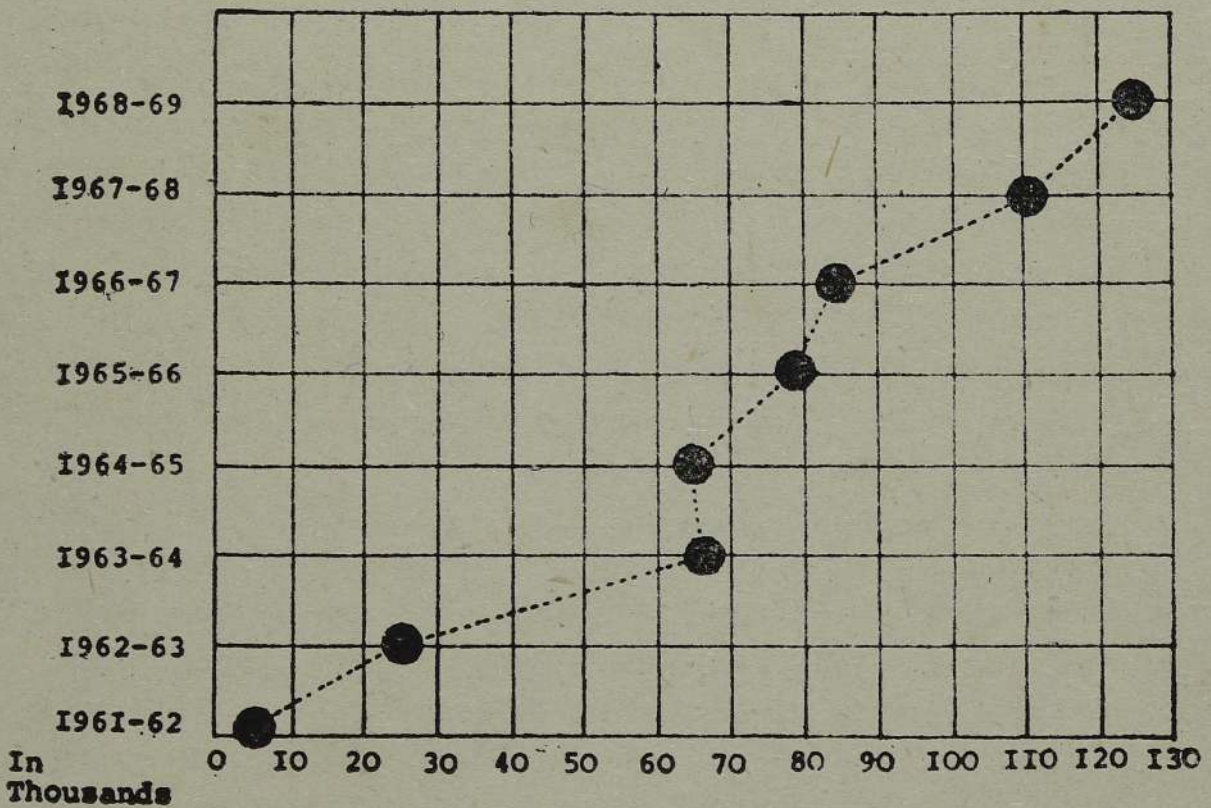


TABLE XXXVIII

Area and Production of Paddy in Sri Lanka

Year	Net Harvested Extent (Thousand Acres)	Production (Million Bushels)
1952	936	28.9
1953	809	21.9
1954	1,022	31.1
1955	1,092	35.7
1956	916	27.5
1957	968	31.3
1958	1,054	36.6
1959	1,044	46.4
1960	1,184	43.0
1961	1,195	43.1
1962	1,269	48.1
1963	1,297	49.2
1964	1,305	50.5
1965	1,056	36.3
1966	1,285	45.7
1967	1,332	55.1
1968	1,387	64.6
1969	1,371	65.9
1970	1,765	77.4

(Source: Department of Census and Statistics)

The total harvested extent of paddy in 1952 was 936,000 acres and in 1970 it had increased to 1,765,000 acres giving an annual compound rate of increase of 3.2%. Over the same period the production of rice had increased by an annual compound rate of 5.5%.

In 1964 total consumption of rice in Sri Lanka has been estimated at 1,138,944 tons. In terms of paddy this should be equivalent to 80 million bushels. In the same year domestic production was 50.5 million bushels of paddy and when an allowance was made for seed paddy, the quantity available for consumption was about 47.5 million bushels. Local production could thus meet only about 60% of the total consumption required and the deficit which had

to be made up by imports amounted to 32.5 million bushels of paddy. In 1970 the requirement of rice was 106.7 million bushels but the total production of rice was 77.4 million bushels and thus we were able to meet 72% of the requirement of rice in 1970.

The increase in the production of rice cannot be solely attributed to the credit programme. The extension services made available by the Department of Agriculture has also made a contribution towards this increased production, especially the introduction of new varieties of rice such as H 4. Therefore it is difficult to assess the impact that the credit programme had on the balance of payments. Nevertheless it could be justifiably argued that to the extent the Credit Schemes met the working capital needs of the farmer and supported the package of policy measures and programmes for increased production of rice, it contributed to the successful implementation of the import substitution programme.

H. Complementary Factors

I. Technology

(a) Directing, Tying and Packing

The Credit Scheme, the composition of the loan and the limits of the loan are related to the cultivation needs at a given level of technology. For example, the loan provides for the approved inputs of fertiliser; it makes provision for improved varieties, transplanting and use of agro-chemicals. It is also tied to some of the inputs such as fertiliser, seed paddy, agro-chemicals and barbed wire, and is given in kind. The cultivation loan is given in stages as required for seed paddy, ploughing, transplanting weeding and harvesting.

b) Programme Extension Services

The role of agricultural extension has recently been defined in a Food and Agriculture Organisation publication as one of "improving the human resources in rural areas and promoting its mobilisation for family and social development". This in fact is one of the basic objectives of agricultural development and in the context of Sri Lanka, covers the functions of the Department of Agriculture, Department of Agrarian Services, the Department of Co-operative Development, the River Valleys Development Board

Department of Rural Development, the Land Commissioner's Department and the Advisory Services of Tea, Rubber, and Coconut Research Institutes and the voluntary organisations such as the Rural Development Societies and the Mahila Samitis (Societies).

Out of these various agencies the most important is the Department of Agriculture. The extension services conducted by the Department of Agriculture are closely related to the credit programme of the government. It may be mentioned that the ultimate finances for the credit programme and the extension services are from government funds.

Under the new agricultural credit scheme the credit given to farmers must be in conformity with the production programme prepared by the Extension Officers and the Cultivation Committees for a given area. The Food Production Overseer has to certify that the credit applied for is in conformity with this plan. In this respect, the role of the extension services is to ensure that the credit needs for the use of new technologies such as seed paddy, fertilisers, etc. are taken into consideration in drawing up the plan and deciding on the credit needs. In this way the extension services are closely linked to the credit schemes. In organising and implementing the extension programme the government has generally adopted the 'package programme approach' where the transmittal of scientific know-how, spread of new varieties, better cultural practices such as application of fertiliser, agro-chemicals, transplanting etc. are combined with a better supply and marketing organisation and schemes of agricultural credit.

The Extension Division of the Department of Agriculture has at present a Head Office in Colombo and 22 Districts offices.

Extension services are co-ordinated at headquarter level by the Extension Division of the Department of Agriculture. The functions of the Head Office is to assist in the preparation and supervision of the production and extension programme, to supervise the work of the District Agricultural Extension Officers and to provide the necessary facilities for the field staff in carrying out their work. The Extension Division is in charge of a Deputy Director and he has other Assistant Directors and Staff Officers to assist him.

within each District there are three levels, vis:-

- (i) The District level;
- (ii) the Divisional level; and
- (iii) the Farm Unit (Village) level.

The Districts correspond with the Administrative Districts and are not agro-climatic divisions as were the Divisional Agricultural Officer Districts in the past. While this arrangement has its disadvantages in that it has led to an unbalanced distribution of staff in relation to agricultural potentialities of the country, It has also its advantages in that the planning and implementation of the current agricultural programmes have settled down on the basis of administrative districts.

District Level At District Headquarters each District Agricultural Extension Officer is assisted by a Senior Agricultural Instructor. The District Agricultural Extension Officer works in close association with the District Agricultural Co-ordinating Committee. Among his various functions his more important responsibilities include:

1. Formulating and supervising the extension education programmes including such activities as staff training classes, and demonstrations;
2. Directing the agricultural extension services in the District (a) to transmit the findings of research to the field, (b) to promote adoption of scientific techniques, (c) to take preventive and curative measures against diseases and pests, and (d) to take all the measures to improve the technology of farming;
3. Preparation and implementation of district agricultural, production programmes covering rice, other field crops, vegetables, fruits, minor export crops, livestock etc;
4. Organising and supervising 'adaptive' trials in farmers' fields;

Each District Agricultural Extension Officer has an extension staff working under him in the field, ranging from 6 Agricultural Instructors and 29 Agricultural Extension Workers in the smaller districts to 17 Agricultural Instructors and 118 Agricultural Extension Workers in the larger districts. The Agricultural

Instructor and the District Agricultural Extension Officer meet about two or three times a month, once at the monthly conference at District Headquarters and once or twice a month on the field. As and when required additional extension staff is posted to districts to carry out any special technical programmes of importance in them. This has proved to be useful.

Divisional Level. The Agricultural Instructor is located at the Divisional Level. Each District Revenue Division is divided into one or more Agricultural Instructor ranges depending on the size of the division and the importance of agriculture in the division. There is at present a total of 202 ranges. The ranges are based on administrative boundaries rather than geographical or climatic divisions. The distribution of Agricultural Instructors is done on the needs of agriculture in each division.

The Agricultural Instructor is now a generalist dealing with all crops and livestock problems that arise within his range. He works in close association with the Divisional Agricultural Committee under the chairmanship of the Divisional Revenue Officer and he is expected to execute all the functions of the District Agricultural Extension Officer and also train and supervise the work of the extension workers in his range. He has to link himself with the Multi-purpose Co-operative Societies and the Cultivation Committees in his area and is expected to attend as many meetings of these organisations as possible.

On the average, the Agricultural Instructor covers about 7,500 acres of paddy land, and has to deal with around 3,000–6,000 farm families, 20–25 Cultivation Committees, 25–30 Multi-purpose Co-operative Societies and about 50 schools. He has on the average about 4 to 12 Extension Workers working under him in his range. Each Agricultural Instructor works from an extension centre located in his range. The total number of such extension centres is 189.

Taking into consideration the multifarious duties of an agricultural instructor, the size of his present range is too large if he is to investigate and deal with the technical problems of farming and work closely with farmers' organisations which are formed to improve farming skills and knowledge.

Village Level. Each agricultural instructor's range is sub-divided into a number of agricultural extension workers' ranges. There are about 4-12 Agricultural Extension Workers in each Agricultural Instructor's range. These agricultural extension workers become a final link in the extension organisation. There are at present 1,345 agricultural extension workers in the Extension Division of which 1,091 are in the field. Each agricultural extension worker is a generalist and assists the Agricultural Instructor in carrying out all the functions assigned to the latter within the area of his range. The agricultural extension worker has to work closely with the Cultivation Committees and Multi-purpose Co-operative Societies in his range and attend as many meetings as possible of these organisations. On the average, each agricultural extension worker has to deal with 700-1000 farmers, 2-5 Cultivation Committees and about 4-10 Multi-purpose Co-operative Societies and also with about 15 schools. Although there has been no systematic study to determine the frequency and intensity of contact between extension staff and the farmers, there is evidence from some of the surveys that have been done that in certain areas farmers receive visits from Extension Staff at very infrequent intervals. The defaulters survey of the Central Bank makes reference to this fact. A survey of 51 farm families in the North Western Province indicated that the visits were rare. A similar study of a few villages in Anuradhapura revealed that visits to the village by the Extension Staff took place once in 6 to 8 months. In special areas which have been selected for a concentrated production effort, such as the "colonisation schemes"- the agricultural settlement under renovated reservoirs - the frequency of contact between Extension Staff and farmers is much higher. In these areas which have been designated special projects, the government has adopted the 'package programme approach' at a more intensive level than in the rest of the country.

The quality of the Extension Staff and facilities for their training need some comment. The Agricultural Instructors are generally recruited from Diploma holders from the School of Agriculture which admits students with a minimum educational qualification at G.C.E. (O) Level and provide a 2-year course in Agriculture.

At present the Department of Agriculture runs an "In-service" Training Institute at Peradeniya which provides a two-week course of training for new recruits in the grades of Agricultural Instructor and Food Production Overseers. The Institute also provides a two-week "In-service" training for Agricultural Instructors and Food Production Overseers with the emphasis on specific subjects and extension methods to be adopted in the different areas of the Island.

The Department of Agrarian Services has yet no regular scheme of training for Departmental Officers except in the grade of Village Cultivation Officers who are given occasional technical training organised by the Minor Irrigation Branch of the Department. Courses are also run for Co-operative Inspectors at the School of Co-operation, Polgolla, on specific aspects of the Co-operative Movement, especially on the rules and regulations governing the establishment, supervision and auditing of Co-operative Societies.

Apart from these training programmes, practical farm schools were also established from 1942 onwards for the purpose of giving training in practical agriculture to young men and women who would be engaged in agriculture on their own land or on lands given to them by the Government, after leaving school.

The following chart indicates the distribution of Extension Officers amongst the various Departments dealing with extension work:-

National Level	Dept. of Agriculture Extension Division	Dept. of Co-op. Development	Dept. of Agrarian Services	Dept. of Rural Development
Directorate	5	4	3	4
Staff Officers	8	15	14	8
Other Technical Staff	12	-	2	4
District Level				
Agricultural Officers	33	-	-	-
Asst. Commissioners	-	37	48	22
Agri-Instructors	52	-	-	-
Headquarter Asst.	-	28	-	22
Inspectors (Development)	-	954	-	-
Inspectors (Audit)	-	1,015	-	-
Other Staff	-	-	-	235
Divisional Level				
Agri-Instructors	220	-	-	-
	(covers divisional as well as village level)			
Divisional Officers	-	-	141	154
Village Level				
Agri. Extn. Workers	1,410	-	-	-
Overseers	-	-	400	-
Demonstrators	-	-	-	3,009

The Cultivation Committee is also expected to play an important role in extension. It usually assists the group of farmers in the area and they are kept informed of new technologies through the Agricultural Extension Workers and Agricultural Instructors. These Committees in turn advise other farmers in the area of the benefit of such technologies.

The other units in the Department which work in close liaison with the Extension Division are -

(i) **The Extension Aids Unit.** This unit is really an Agricultural information Unit and is responsible for the publication of technical literature for issue to Extension staff and farmers; agricultural education and propaganda through mass communication media such as the Press and Radio; and organising national agricultural exhibitions and also assisting district staff in carrying out exhibitions at district and village levels.

(ii) **The Agricultural Economics and Farm Management Unit.** This Unit was established in 1968 and consists at present of two Agricultural Economists and two Agricultural Instructors. The functions of this unit, as far as extension work is concerned, are as follows:-

1. To conduct studies in the evaluation and selection of crops and livestock system and combinations in order to maximise farm incomes;
2. Testing of research findings of the Department with regard to their applicability on a profitable basis in the field before recommendations are released to the public.
3. Guiding farmers in the use of simple records for regular evaluation of their farming business.
4. To progressively introduce and popularise "Farm planning and budgeting" techniques among the farmer population of the country.

Apart from these units, the Agriculture Department also organised Young Farmers' Clubs. The main objective of these clubs is to orient young farmers towards scientific agriculture and the use of modern techniques.

(c) **Other Arrangements for Technical Transfer**

Apart from the services supplied through the Government Agencies, there are no other extension services that are provided by other agencies (except where the Ceylon Tobacco Company provides aid and guidance in the production of tobacco).

(d) Nature of Technologies

The rice-breeding programmes would be broadly divided into two Districts—

- (a) Breeding varieties for general improvement and wide adaptability;
- (b) Breeding varieties for specific areas of the Island to meet the demands for specific conditions.

The most important contribution that is made towards the objective of increased production of rice is the breeding of high-yielding varieties with resistance to disease, resistance to lodging and grain shedding, high milling out-turn, superior rice quality and wide adaptability.

Investigation work on rice is carried on in the laboratories and rice fields of research and experimental stations and in Government Farms. Much of the laboratory and green-house work is situated at the Central Agricultural Research Institute at Peradeniya. In connection with field work pertaining to a region, there are separate research or experimental stations. A team of officers are stationed at these regional stations.

These Research Centres are engaged in planning varieties for specific areas of the Island to meet demands for special conditions such as —

1. Breeding for cold tolerance,
2. Varieties for conditions of poor drainage,
3. Breeding for salt and flood resistance,
4. Drought resistant varieties for upland rice,
5. Long-age varieties in the Colombo, Kurunegala, and Kegalle Districts which have high rainfall,
6. Fertiliser experiments,
7. Cultural practices such as transplanting,
8. Weed control,
9. Plant protection,
10. Control of rice pests, and
11. Control of rice diseases.

The results of the research work carried out has helped substantially to improve upon the existing practices, especially in the breeding of high-yielding rice such as H4 and the scientific use of fertilisers.

2. Supplies and Sales

(a) Programme Supplies

The Governments' policy in regard to agricultural inputs is to ensure the ready availability of fertilisers, agro-chemicals, seeds and machinery, and to subsidise certain of these inputs. At the moment the major portion of subsidy expenditure is on fertilisers. Seeds are also subsidised while agro-chemicals are not subsidised, but sold on commercial terms, by the private trade or through the Department of Agriculture. Machinery is for the most part distributed privately although the Minister of Agriculture recommends the allocation of foreign exchange for private tractor importers.

All fertilisers used for paddy are imported by the Fertiliser Corporation. These are distributed through Co-operative Societies and to a limited extent through the Cultivation Committees in the villages. The farmers have to come to the Co-operatives to obtain their fertiliser either on a cash basis or as credit in kind. One of the problems of this system was that the Co-operative Societies did not have sufficient storage to store all the necessary quantity of fertiliser required by the farmers in the area. This leads to a situation where fertilisers are not available at the time when it is required. At present the Fertiliser Corporation has a programme for constructing fertiliser stores in the village areas.

Seed provision and extension services. Improved seed varieties are largely purchased from private seed farms by the Department of Agriculture and sold to farmers with a Rs.2 per bushel subsidy. Official policy is that fresh improved seed should be distributed only every three or four years, the farmer meanwhile using part of his harvest for seed. The Department's research is directed to discovering the optimum seed for different soils and temperatures and for different sowing/harvest periods. The most common improved variety is H4, a four month variety with a genetic

potential of 160 bushels per acre, and H8 another improved variety, both popular because of its high yields and its taste. Recently a range of new varieties with higher yields have been developed. The IR.8 variety is being increasingly used and 15,000 bushels were distributed officially for the first time in 1968. However, only some 40,000 acres were sown with IR.8

Extension services are provided free by the Department of Agriculture. However, the number of extension workers does not appear to have risen in recent years and this may be a major constraint on agricultural development. Until recently the field workers were distributed, - as nearly - as possible, equally over the Island. They were supposedly capable of advising on all domestic crops. Since 1964 slight changes have been made by assigning some workers for advice only on certain crops. There has been a further important change in concentrating extension work in certain limited areas with high agricultural potential.

Machinery. Tractor services are provided directly to a very limited extent by the Department of Agriculture, but it is not intended to expand this service and in fact nearly all tractors are owned privately. The Departmental Tractor service is confined to about 380 machines and is run at a loss. At present, aid-financed tractors are given only to farmers holding permits granted by the Government Agent of their District and these permits are only issued on condition the holder ploughs an area in addition to his own land, designated by the Government Agent, at a rate of Rs. 55 per acre. Four major tractor importers have also been asked to create pools of twenty machines each to be hired out at the same rate. Simple weeders and seeders are manufactured by the Department of Agriculture and are sold at a subsidised rate of about 60% of cost to individual farmers.

(b) Programme - Infrastructure

The credit system described above is not extended to capital works such as the construction of irrigation facilities or feeder roads. At present credit is given to the Co-operative Societies themselves for the construction of storage facilities and other minor rural works. The Department of Agrarian Services gives loans to societies for the purchase of lorries, construction of go-downs,

acquisition of land for fertiliser stores, purchase of iron safes, purchase of weighing machines, conversion of rocky land into arable land and for the construction of rice mills. Feeder roads and minor irrigation works are constructed and maintained by separate Government Departments and local authorities, and are fully financed from Government funds.

By the end of 1968/69 Ceylon's Fertiliser Corporation had completed the construction of 20 District Fertiliser Stores with a capacity of 28,000 tons. These 20 district stores were part of the programme to construct 31 stores (with a capacity of 43,000 tons) in the District Fertiliser Stores Construction programme launched in 1966 under the Agricultural Development proposals of 1966/67. With the operation of these stores, some of the stores owned or rented by the Agrarian Services Department became surplus and uneconomical to maintain. The Department, therefore took steps to effect a certain degree of rationalisation and closed down some of its stores.

Government has also assisted co-operative societies to construct stores for the storage of paddy at the village level. At the peak periods of grain deliveries by farmers the storage facilities of the Paddy Marketing Board and the Food Commissioner are used to capacity and the co-operative societies have to be equipped to carry stocks of paddy if they are to take delivery of the paddy offered by the farmer for sale.

(c) General Access and Availability

The farmers at present have direct contact with the services and supplies given through the co-operative societies and the Agricultural Extension Officers of the Department of Agriculture. As a Co-operative Society is normally centrally situated in a village and covers a specific area, farmers who live in close proximity to such centres are in a better position to have access to the services and supplies that are provided.

Food Production Overseers and Agricultural instructors visit farmers in the village to provide help and advice.

The Government programme for the distribution of seed paddy is through the co-operative societies. Improved varieties of seed paddy such as H4 and BG 11-11 are made available to the farmers as credit in kind. The problems of access to resources and supplies

arise mainly out of the farmer's inability to keep to the schedule of repayment of his loans. Although there are no statistics which quantify the effect that such limitations have had on production, it may be fair to assume that there would have been some impact on the farmer's output if he was unable to obtain the services and supplies provided.

As in previous years, the issue of fertiliser by the Agrarian Services Department was mainly channelled through Multi-purpose Co-operative Societies.

(d) **Guaranteed Sales and Price Supports**

The Government operates a Guaranteed Price Scheme for paddy and other crops through the Department of Agrarian Services. The schedule in Annexe IX gives the products and their prices which come under the Guaranteed Price Scheme.

The main policy objectives of the Guaranteed Price Scheme were to—

- (i) assure to the producer fair prices and a market for his products,
- (ii) stimulate the production of food crops consumed in the country and thereby
- (iii) replace food imports by locally produced food, with self-sufficiency as the long term goal.

During the initial stages of the Guaranteed Price Scheme, the Government was to buy only what was offered by the producer. The local producer was not prepared to sell his produce to the Government if he could get a better price in the local market. Thus, the guaranteed price for a bushel of paddy was raised from Rs. 9 in August 1951 to Rs. 12 in September 1952. From 1948 to 1952 the guaranteed price for paddy kept in line with the world market price with a small inducement factor added to the local producer. In 1966, the guaranteed price was raised to Rs. 14 per bushel. The following Table indicates the fluctuation in the guaranteed price as compared with the imported C. I. F. Price:-

TABLE XXXIX

Guaranteed Price for Paddy from 1948/1966

Year	Guaranteed Price (Rs per bushel of paddy)	Imported Price (c i. f.)
1948	8.00	7.88
1949	8.00	7.79
1950	8.00	7.74
1951	9.00	8.15
1952	12.00	11.24
1953	12.00	10.95
1954	12.00	9.40
1955	12.00	7.99
1956	12.00	7.45
1957	12.00	6.78
1958	12.00	6.84
1959	12.00	6.72
1960	12.00	6.57
1961	12.00	6.43
1962	12.00	6.75
1963	12.00	7.00
1964	12.00	7.30
1966	14.00*	8.00

* The price remained at Rs. 14 up to March 1973.

(Source: Administration Report of the Commissioner of Agrarian Services.)

The guaranteed price of paddy in 1973 was Rs. 15 per bushel.

The cost to the government of the producer subsidy is given in Table XL.

TABLE XL

**Cost of Producer Subsidy to Government from
1955 / 56 to 1968 / 69**

Year	Cost of Producer Subsidy (Million Rupees)
1955/56	78.0
1956/57	61.1
1957/58	93.0
1958/59	108.6
1959/60	133.9
1960/61	156.6
1961/62	169.9
1962/63	175.1
1963/64	172.9
1964/65	162.0
1965/66	157.5
1966/67	76.4
1967/68	36.5
1968/69	51.3
1969/70	50.3

(Source: Food Commissioner's Department, E. B. Branch)

In 1961 the Agricultural Products (Guaranteed Prices and Control of Milling and Hulling) Act No. 33 of 1961 was passed and this gave legal sanction to the entire scheme. The Act provided for the Committee in consultation with the Minister of Finance to fix guaranteed prices for a regulated number of agricultural products. At the village level the MPCs were appointed as authorised purchasers of paddy and other guaranteed commodities direct from the producer. The funds required by the MPCs for the purpose were to be borrowed from the People's Bank which came into existence in 1961 or from the Co-operative Banks. One of the chief drawbacks of this scheme was the inadequacy of the storage facilities at society level. Because of this middlemen have exploited producers whenever congestion arose at these stores. This difficulty has been overcome to a certain extent with the formation of the Paddy Marketing Board in 1971.

The Paddy Marketing Board does not directly pay for the paddy it collects. The procedure is as follows: The co-operatives obtain the finances for their marketing function by submitting "Usance Notes", valid for six months, to the People's Bank. The People's Bank submits these to the Central Bank and obtains cash at 3% interest. The Usance Notes usually cover the need of the Co-ops for the purchases they make under the G. P. S. Paddy is the largest component under the Guaranteed Price Scheme. Although the Paddy Marketing Board is by law the sole purchaser of paddy, it does not buy the paddy direct. All purchases of paddy are done by the Co-operative Societies. After purchase the Co-operatives send the paddy to the various stores of the Paddy Marketing Board. After testing for quality, these stores issue a "goods receipt" to the co-operative for the paddy taken over. The co-operatives then hand over these goods receipts to the local branch of the People's Bank and these banks discount the goods receipt at $\frac{1}{4}\%$ interest. The goods receipts are then forwarded to the Head Office of the People's Bank which obtains reimbursement from the Paddy Marketing Board.

For the other products the goods receipts follow the same procedure but the final reimbursement to the People's Bank comes from the Agrarian Services Department.

The G. P. S. which covers a large number of rural agricultural products removes the price uncertainties for the farmer. Initially, the G. P. S. acted as a floor price and prevented prices falling below floor level. But later, until about 1966 the guaranteed price was somewhat above the market price. In December 1966 the rice ration was reduced from two measures per head at the rate of 25 cents per measure to one measure per head given free. The reduction in the rice ration together with an increase in the guaranteed price of a bushel of paddy from Rs. 12 to Rs. 14 resulted in a very buoyant open market.

Although it is difficult to assess the contribution made by the G. P. S. towards the increase in the production of paddy, it can be said that there has been a marked improvement in the production of rice after the introduction of this scheme, and it has also helped in no small measure to improve the standard of living of the peasant farmer, as a direct result of the increased incomes arising out of price stability for his products.

The following Table shows the G. P. S. prices of paddy and other subsidiary crops, as compared with the C. I. F. prices for the year 1967:

TABLE XLI
GPS and CIF Prices for Subsidiary Crops - 1967¹

Crop	Unit	CIF Price	GPS Price
Paddy	Bushel	92	14
Dry Chillies	Cwt	100	252
Onions	Cwt	16	22-48 (Seasonal)
Potatoes	Cwt	18	45
Green Gram	Cwt	37	67

1. Pre-devaluation: in 1968, the C. I. F. rice price nearly reached Rs 14.
2. Paddy equivalent.

Source: *Agriculture in Ceylon until 1975*, P. Richards and E. Stoutjesdijk.

It can be seen from Table XLI that all the G. P. S. prices were above the C. I. F. prices, the largest price difference being for dry chillies which has a big demand in the local market.

Apart from the G. P. S. provided by the Department of Agrarian Services, vegetable cultivators are provided with a minimum floor price as set out by the Marketing Department. Under this scheme the Extension Officers of the Marketing Department fix the price for vegetables, fruits and eggs, after observation of the Colombo prices at the Pettah market. These prices are broadcast over the radio for the benefit of the producers.

The Marketing Department collecting centres are obliged to buy at these fixed prices. The price-lists are prepared once a month and corrections are made as and when necessary. The operation of the Guaranteed Price Scheme and minimum floor

prices for products other than paddy have not been altogether effective. The Scheme worked satisfactorily in respect of onions. But in respect of chillies, the guaranteed prices were ineffective in encouraging local production as long as low-priced imports of this commodity continued and were made available to the consumer at much below the guaranteed price. The scheme for the purchase of these products from local producers by the Co-operatives did not work satisfactorily as societies were reluctant to purchase these commodities which presented problems of storage and drying and did not give them satisfactory margins of profit. It was only when the imports of these commodities were banned and open market prices rose steeply that local producers responded with a substantial increase in output.

(e) Insurance

At present there is a Crop Insurance Programme which is operated by the Department of Agrarian Services. This programme has, however, no tie-up with the credit programme. The 10th term of the Crop Insurance programme commenced with the 1969/70 Maha Season. The following Table indicates the districtwise acreage under crop insurance in 1968/69 and 1969/70. The insured acreage increased from 201,660 in 1968/69 to 205,184 in 1969/70, i. e. an increase of 3,524 acres. However, in the districts of Galle, Matara, Vavuniya, Amparai, Kurunegala, Badulla and Kegalle there was no change in the acreage over the preceding year while the other districts showed an increase, with the exception of Jaffna and Ratnapura which showed a decrease.

TABLE XLII
Acreage under Crop Insurance

District	Extent Insured	
	1968/69	1969/70
Colombo	12,919	13,148
Kalutara	6,806	6,951
Kandy	7,837	7,907
Galle	6,455	6,455
Matara	12,752	12,752
Hambantota	28,062	28,326
Jaffna	5,771	5,721
Vavuniya	14,022	14,022
Batticaloa	11,211	12,529
Amparai	8,656	8,656
Trincomalee	5,833	5,855
Kurunegala	28,259	28,259
Anuradhapura	32,862	34,245
Badulla	5,911	5,911
Ratnapura	7,863	7,028
Kegalla	6,441	6,441
TOTAL	201,660	205,184

(Source: Department of Agrarian Services).

One of the principal criticisms directed against the present scheme is that it is based on a subsidy from the Government and therefore cannot be considered an insurance scheme proper. So far as peasant agriculture is concerned, crop insurance cannot be undertaken without some form of subsidy. No commercial firm would be prepared to undertake crop insurance, particularly with a cereal crop like rice. Therefore crop insurance should be made compulsory and premia worked on the basis of high and low risk areas, unless the Government policy is to discourage farmers to cultivate in high-risk areas. Even after such matching, the premium payable is beyond the capacity of the average peasant farmer in Sri Lanka. Therefore the Government subsidy was both necessary and inevitable. In Sri Lanka the actual contribution or subsidy by the Government each year amounts to only the difference between estimated indemnity payments and expected premium collections from the farmer.

Another criticism of the scheme relates to the uniform premium rate that is prevalent. This is said to be not fair by farmers in low-risk areas where losses are infrequent. This is one of the main reasons for varying coverages between different areas, the low-risk areas being given higher coverages. Even with the present uniform rate, if the farmer suffers a loss once in 10 to 15 years, he will still receive more as indemnity than the amount paid by him as premium during the period. The experience in Sri Lanka has been that the average Ceylonese farmer suffers some form of crop damage within a period of 10 to 15 years.

The third criticism is that the coverage offered at present is too low and totally unrelated to the productivity of the area. Those subsidies that provide a minimum coverage of Rs. 10 per acre does not even amount to the value of a bushel of paddy at the guaranteed price. Even the maximum coverage of Rs. 100 per acre represents only the value of eight bushels of paddy. The tendency to keep the coverages low in order to keep the premium low is quite natural but the problem has been aggravated by uniform premium rates which means that coverages had to be further reduced taking into account variations in regard to different areas.

The Government has brought forward a proposal to establish a crop insurance corporation to review and reorganise the entire scheme of crop insurance in the country.

(f) Other Programme Marketing Arrangements

The Marketing Department plays a key role as regards the collection and distribution of the vegetables that are cultivated in the village areas. This Department has 33 collecting centres distributed in various districts of the country. The Department is responsible for the purchase of about 7 to 10% of the total production of vegetables in the Island.

Although the Marketing Department has no connection with the collection of produce under the guaranteed price scheme operated by the Department of Agrarian Services, it provides a guaranteed price for vegetables, fruits and eggs. The Divisional Officer of the Department fixes the prices after observation of the Colombo prices in the Pettah market. These prices are then broadcast for the information of the producers and consumers.

The Pricing Committee of this Department fixed the prices at which the various collecting centres should buy different varieties of vegetables from the villagers. Price-lists are prepared once a month and revisions are made in these lists as and when necessary.

(g) General Marketing Conditions

One of the problems that farmers in certain areas have to face is the question of transportation of paddy from the farm to the nearest Co-operative Stores. In areas not served by proper farm to market roads, transportation becomes an arduous and time-consuming operation. Due to the difficulties of transportation of paddy and other subsidised foodstuffs in some areas, the farmers often come under the control of middlemen who undertake to transport their goods. These middlemen purchase the goods at a price considerably lower than what prevails in the market. This is done because the purchases are made by such traders at the farm level.

The crops that come under the guaranteed price are usually those that are in great demand and what was often imported in the past. The government has now totally banned the import of several items of subsidiary foodstuffs and as such, the producer is able to get a better price than what is given under the guaranteed price scheme for the subsidised crops.

At times the farmer encounters problems in his sale of paddy to the co-operative store. Bureaucratic procedures, excessively strict enforcement of quality tests, corruption, and inability to accept deliveries due to lack of storage have reduced the efficiency of the co-operatives as a purchasing organisation. The government attempted to overcome these problems by providing an incentive scheme for purchases. The Paddy Marketing Board has plans for streamlining and facilitating the sale of paddy to the co-operative societies. As far as paddy is concerned, according to the Paddy Marketing Board Act, the farmer is compelled to sell his paddy to the co-operative societies. This Act debars any person to purchase and transport large quantities of paddy anywhere in the Island. Even so, the practice of selling at the village level, to the private trade, still continues to a limited extent among the farmers. In these circumstances the farmer is in a sellers' market and benefits from the competition among traders for the purchase of his product.

Many producers, however, are not able to get the maximum benefit from the prevailing scarcity conditions. The most prudent method of marketing would be for the farmer to hold to his crop and release it in stages as prices rise, rather than unload his crop in the market immediately after harvest when prices are low. To adopt such a marketing plan, the farmer needs resources and working capital. While the well-to-do farmers have resorted to this method, the poorer farmers have had to dispose of their crop at the low prices following the harvest, and thereby accruing profits to the middlemen.

In the case of perishable commodities such as vegetables, marketing conditions in the village do not help the village producer to obtain the best price for his products. The only place where he gets a fair price for his vegetables according to the market conditions, is at the collecting centres of the Marketing Department.

(h) Profits and Risks

There has been a significant increase in paddy production during the period 1960 onwards, backed by government measures for promoting production such as agricultural credit schemes, subsidies, guaranteed prices and improved extension services. Throughout the period, more land has been brought under major and minor irrigation schemes at an average rate of 10,000 to 15,000 acres per annum. The extent of rain-fed land has also risen. Detailed information on the use of new technologies is difficult to obtain except for fertilisers, which has been discussed earlier. However, there has been an increase in the use of improved seed varieties, in extension services provided by the government and also probably in labour inputs per acre for operations such as transplanting.

Cost, yields and returns from paddy cultivation will naturally vary in different parts of the Island according to climatic conditions, type of irrigation available, if any, and use of inputs. There is also a great variation in seasonal and annual yields per acre in the different parts of the country.

The following table indicates paddy farm budgets, annual outputs, profits and subsidies (per acre):-

TABLE XLIII

**Paddy Farm Budgets, Annual Output,
Profits and Subsidies (per acre)
1967**

	Colombo/ Kandy	Nuwara Eliya/ Kandy	Polonnaruwa Hambantota
Output at G.P.S. prices	630	1,008	1,190
Output at World prices	356	571	673
Profits (net, of paid and imputed costs):			
G. P. S. prices	206	474	638
Profits plus imputed labour costs:			
G. P. S. prices	474	794	912
World prices	200	357	395
Subsidy on Seed & Fertiliser ¹	14	17	25
Subsidy on irrigation	—	—	300
Total input subsidy	14	17	325
Profits minus input:			
Subsidy (GPS) prices	-192	457	313
World prices	-82	20	-204
Subsidy on output ²	274	437	517

1. Fertiliser subsidy, net, of import duties and taxes.

2. Value of output at GPS prices minus value of output at world prices.

Source. *Agriculture in Ceylon until 1975* — P. Richards and E. Stoutjesdijk.

These prices however reflect the official rate of exchange. If imported rice is costed at the rate inclusive of FEECs the relative cost of inputs would be approximately 65% more than the CIF price given. As the rupee is considerably overvalued at the official rate and import substitution benefits could be valued more realistically at FEEC rates, the real cost of the subsidy to the economy could be estimated more reliably by adjusting the import price to include FEECs.

A typical paddy farm estimate of output and costs is given in Table XLIV.

TABLE XLIV
Paddy Farm Budgets, Output and Cost

Rs. per acre

	Colombo/ Kalutara	Nuwara- Eliya Kandy	Folonnaruwa/ Hambantota
Bushels per acre			
Yield: Maha	30	45	57 ¹
(bushels) Annual ²	45	72	85
Value at Rs 14 bushel	630	1,008	1,190
Value at world price ³	356	571	673
Costs: Maha Rs.			
Fertiliser ⁴	9	14	20
Seed paddy 2 (bushels) ⁵	32	32	32
Tractor and buffalo ⁶	50	75	89
Hired labour	—	—	31 ⁷
Pest control	n. a.	n. a.	7 ⁷
Transport ⁸	7	7	7 ⁷
Paddy land levy	6	6	6
Total costs (Maha)	104	134	192
Total costs (Annual) ⁹	156	214	278
Imputed labour costs (per annum ¹⁰)	268	320	320 ¹¹
Total costs, paid and imputed (per annum)	424	534	552

1. This yield figure may be an exaggeration as it may be the result of measuring output per acre net of uncultivated portion in the field such as bunds, paths, etc. and possibly should be reduced by 15% to be comparable with those for the other districts.
2. Reckoned by applying the following cropping indices: Colombo/Kalutara, 152; Nuwara Eliya/Kandy, 160; Polonnaruwa/Hambantota, 151.

3. 1967 average C I F price; Rs. 600 per 68 bushels, minus a 10 percent deduction for value added in rice milling.
4. Average actual application 1967 (for all except Polonnaruwa/Hambantota, where Mahaveli Ganga survey data used); cost to farmer with 50 percent subsidy.
5. Subsidised price.
6. Estimated.
7. Mahaweli Ganga survey data.
8. Resumed same in all districts.
9. Reckoned by applying cropping indices to Maha costs.
10. Reckoned at Rs.4 per day for the following number of days per annum: Colombo/Kalutara, 67; Nuwara Eliya/Kandy, 80; Polonnaruwa/Hambantota, 80.
11. Including cost of hired labour.

(Source: *Agriculture in Ceylon until 1975, at p. 91*)

The output and costs were highest in the Polonnaruwa/Hambantota region-almost double that of the Colombo/Kalutara area. The costs being higher in the former region may be due to the increasing use of fertiliser per acre, the cost of hired labour and the higher cost of tractors and buffaloes.

Total receipts shown in Table XIV include regular income from produce, plus the amount borrowed and the amount realised from the sale of assets. (The data is presented on a permanent basis rather than on a seasonal basis. No allowance is made for the capital gains or losses in this calculation. Income data refers to gross incomes after payment of rental and other dues at the harvesting field).

The definition of non-current expenditure includes expenditure incurred by farmers on ceremonial occasions, marriage, litigation, illness, death, schooling, capital expenditure and repayment of capital and interests. The excess of income over non-current expenditure varied from 51% in the lowest income group to 103% in the second highest income group with an overall average of 88% for all the

income groups. Even so, the debt servicing obligations that were in default remained high and these obligations were on the average 43% for loans under the new Agricultural Scheme and 50% for other loans in default. Considering this high rate of default, it is necessary to find out whether any group of income-receivers would have a positive balance out of the excess of income over non-current expenditure, after meeting current consumption. This could give an idea whether some defaulters have a surplus of income, to repay. For this purpose, a comparison of the data obtained from the Socio - Economic Survey of 1969/70 conducted by the Department of Census and Statistics, was used in respect of current consumption.

TABLE XLVI
Expenditure over Income-Percentages

Income Group Rs. per month	Current expenditure as % of Income (Socio- Economic Survey 1969/70)	Gross Receipts less non- current expenditure as % of Income	Proportion of Income left after meeting re- ported Expenses (3) - (2)
(1)	(2)	(3)	=(4)
0 - 50	96.0	50.8	- 45.2
51 - 100	95.9	75.4	- 20.5
101 - 250	95.9	75.4	- 20.5
251 - 500	73.2	87.9	+ 14.7
501 - 750	66.0	86.1	+ 20.1
751 - 1000	55.3	103.8	+ 48.5
Over 1000	43.1	93.4	+ 50.3
Total	79.7	88.0	+ 8.3

Note: Some interpolation was done in the case of certain groups that did not broadly fall within the income groups of the socio-economic survey.

(Source: *Defaults Survey*, Central Bank of Ceylon at page 68).

It is clearly seen from column (4) in Table XLVI, that those receiving an income of over Rs. 250 had a positive balance to settle the overdue loans. This balance is compared below with the overdue loans.

TABLE XLVII
Capacity to settle Overdue Loans compared
with Overdue Loans

Income Group Rs. per month	Overdue Loans (with interest) as percent of income		Proportion of income left after meeting all reported expenses	Capacity to settle Over- due Loans (4) - (3) =
	N. A. Loans	All Loans		
(1)	(2)	(3)	(4)	(5)
0 - 50	19.7	43.1	- 45.2	- 88.3
51 - 100	10.5	21.7	- 20.5	- 42.2
100 - 250	5.9	13.0	+ 0.2	- 12.8
251 - 500	4.8	11.9	+ 14.7	+ 2.8
501 - 750	3.0	7.6	+ 20.1	+ 12.5
751 - 1000	3.4	16.7	+ 48.5	+ 31.8
Over 1,000	1.8	10.0	+ 50.3	+ 40.3
TOTAL	4.8	12.6	+ 8.3	- 4.3

(Source: *Defaults Survey*, Central Bank of Ceylon: at p. 68)

It is clear that incomes are inadequate in the three lowest income groups (those receiving less than Rs. 250) to meet all expenses reported. The capacity to settle overdue loans is indicated in the last column of Table XLVII. The lowest income group should have an increase in income of nearly 90% to meet the deficit in income over reported expenditure and settle overdue loans. On the average, this income group had to cultivate 1.02 acres and if the yield is about the national average of 50 bushels per acre, the income rise would be more than 100%. However, the lowest income group with monthly household incomes less than Rs. 50 is not typical of the average low income household in the peasant sector.

According to the Socio-Economic Survey of 1969/70 the average monthly income in the rural sector was in the region of Rs 140 and was closer to the third group in the Defaulters Survey. It should be noted that the highest percentage of defaulters were in this group according to the defaulters survey. The two groups with lower incomes would therefore be marginal groups and not representative of the average low income farm family. For the third group with an average extent of 1.95 acres, the potential on income increases through higher productivity. It also increases the repayment capacity of overdue loans quite high.

The data on incomes, expenditure, and levels of poverty collected through the sample surveys that have been conducted must be treated with a great deal of caution. The percentage of error is quite high. In the income data of the defaulters survey and the Socio-Economic Survey the income effect of free rice has not been included. It is doubtful whether the non-monetised income of these households has been correctly estimated and included. The institutions conducting the survey have drawn attention to the fact that the respondents to the survey questionnaires invariably tend to understate income and overstate expenditure. This is partly due to unintentional inaccuracies, partly to the belief that government is collecting data on which it expects to revise its policies on subsidies, taxation, debt redemption, agricultural credit and so on. Therefore the conclusions regarding poverty at the margin which is apparently even below subsistence level in the lowest income categories in the defaulters survey, need to be critically re-examined on the basis of further data.

It is difficult to derive a clear profile of the poverty in the rural sector from the data available from the different surveys, as taken separately they present a somewhat confusing and conflicting picture. For example, the data on the structure of paddy holdings, vide Table IV, indicate that approximately 65 percent of persons owning paddy land had paddy holdings below 1 acre. According to the defaulters survey, defaulters with lowest incomes cultivated an average holding, of about 1 acre. From the data on paddy holdings it might appear that the majority of paddy farmers owned un-economic mini-holdings which may not be capable of yielding even a subsistence income. However, the majority of these operators are only engaged part time on paddy farming and have other sources of income from highland holdings they possess, as well as wage employment in adjoining plantations and other enterprises. Furthermore, a significant proportion of holdings below one acre are jointly owned and cultivated

by owners in rotation over a cycle of seasons. Therefore, before any reliable conclusion could be drawn about the agrarian structure, the pattern of economic activities, forms of ownership and operation and level of income in the paddy sector with holdings below 1 acre, a great deal of primary data collection and socio-economic research has yet to be done. When this has been said, it should also be noted that the holdings below 1 acre account only for about 20% of the total paddy extent. The full time paddy farmers would fall mainly into the categories of holdings above 1 acre. If we take the farmer in the third category of the defaulters survey (which contained the highest percentage of defaulters) as the typical farm household dependent on paddy, then as given in Table IV, the income of this household from paddy alone will be approximately Rs.2000 per annum on an average yield of 45 bushels and a crop intensity of 1.6. This income will be further supplemented by other garden produce and subsidiary food crops if he possesses a small plot of highland. For example, farmers in the Dry zone will supplement their incomes from low land cultivation with produce from shifting cultivation in adjoining forest land. Therefore an income of Rs. 2400 per annum for a typical farm household would not be an excessive estimate. The cost of production of 1.6 acres excluding family labour would be approximately Rs. 350 which the farmer could obtain from a credit scheme; he would therefore not incur any expenditure out of his own resources but out of borrowings. The net cash income available for consumption and other household expenditure after repayment of loans would be in the region of Rs. 2000 per annum for each household, or Rs. 167 per month. The minimum household budget on nutritional norms for the urban sector was estimated at Rs. 170 per month by the Medical Research Institute in Sri Lanka in 1971. On these figures one might conclude that our typical farm household for a holding of about two acres of paddy and yielding 45 bushels of paddy an acre by taking 1.6 crops from his land is at a level of poverty which is not appreciably below the poverty line and is very close to the point where it would have crossed it. As stated earlier the prospect of raising repayment capacity for farmers in this category is good as the potential for further yield increases is high. However, this projection of a typical farm household dependent on paddy is subject to numerous qualifications. The yields and cropping intensity will depend on the condition of the land and the availability of water.

Evaluation

(A) Performance

(1) Apparent use of credit

The Committee which studied Agricultural Credit in 1966 observed the fact that under the credit schemes that were then in operation, there was some misuse of funds. According to this report, "the present lending rates carry with it a large element of subsidy by government. In fact, part of the misuse of these funds might be due to the fact that some borrowers have at least realised that the going rate in the market is higher and that they could make larger profits by relending the money given to them by government at a subsidised rate of interest." They also noticed that there was no proper system for relating the request for loans to the actual requirements of each farm in relation to the crop he proposes to grow, on the extent of land given to him and to the cultivation practices that are present on such land for cultivation of such crops. There was also no proper mechanism for effecting supervision of the use of loans once granted. Although there was no reliable data to quantify the extent to which agricultural credit was used by farmers for purposes other than agriculture, instances of misuse of credit were observed. The Committee therefore recommended several measures to eliminate some of the deficiencies in the existing credit schemes. These included: (a) the preparation of a detailed cultivation plan on which the requirements of credit to individual farmers was to be granted, (b) the preparation of this plan well ahead of the cultivation season to eliminate delay in the granting of credit, (c) the granting of credit in kind - seed paddy, fertiliser etc. and (d) the supervision of the entire programme from the stage of plan preparation to the granting and utilisation of credit by a set of village officials under the direction of the Government Agent. These proposals including the higher rate of interest were incorporated in the New Agricultural Credit Scheme, but an evaluation of this scheme by the Central Bank conducted in 1972 showed that the deficiencies in the previous scheme had not been entirely eliminated and that some misuse of agricultural

credit continued. This was illustrated in a scheme in the North Western Province in the village of Devahuwa where the cultivation programme including credit was intensively supervised, and where it was detected that some cultivators resold some part of the subsidised fertilisers for use in sectors where the subsidy for fertiliser was not available.

2. Effects

(a) Production

The following Table gives the index numbers of extent, yields of paddy and fertiliser used from 1952 to 1970:

TABLE XLVIII
Index Numbers of Extent, Yields of Paddy and Fertiliser used

	Sown Extent	Production Base Year 1952 - 54 = 100	Yield	Fertiliser	Population
1952	101	106	105	72	97
1953	91	80	92	92	100
1954	109	114	102	136	103
1955	117	131	111	173	105
1956	102	99	102	204	109
1957	105	115	111	244	112
1958	120	134	118	380	115
1959	115	133	119	291	118
1960	127	158	124	419	121
1961	127	158	123	549	125
1962	133	176	129	679	128
1963	135	180	129	867	130
1964	137	185	132	606	134
1965	126	133	117	584	137
1966	140	167	122	762	140
1967	142	201	141	1214	143
1968	151	236	159	1241	147
1969	148	241	172	1231	150
1970	162	284	176	1297	153

(Source: Ministry of Agriculture)

It is difficult to relate the impact of the credit programme to the increase in the production of paddy. This is because other factors such as the introduction of new varieties, improved cultural practices, use of fertilisers, irrigation and extension services all contribute to the production of paddy. It is not possible to isolate each of these variables and estimate the contribution which each variable makes to the increase. The index of the sown extent had increased from 101 in 1952 to 162 in 1970; production had increased from 106 to 284 and the yield from 105 to 176. A greater part of the increase in the yield is due to the increasing use of high-yielding varieties of rice and the use of fertilisers. Fertiliser application is one of the most important factors for raising yield per acre. With the introduction of new high-yielding strains, the inputs of fertiliser, agrochemicals etc. had to increase and the management practices became more sophisticated, all of which demanded more resources of working capital from the farmer. The farmer's capacity to increase yields and benefit from the advances in technology in his field therefore depended on the ready availability of credit. The total input of credit to the small farmer through the scheme administered by the government from 1947-1970 was in the region of Rs. 567 million and this gives some indication of the support the farmer received during this period. Of course the government schemes met only part of the credit needs of the small farmer. Reliable data on the volume of short-term credit in the form of working capital available to the small farmer from other sources has not been collected. Such credit was obtained on terms which were less favourable. Such credit usually came from middlemen who advanced part of the sale value of the crop to the cultivator and therefore purchased the crop at prices appreciably below the market price. The operation of government credit schemes on a large scale helped to mitigate some of the excesses of such private credit.

TABLE XLIX
Paddy Production in Ceylon, 1960-1968

	1960	1961	1962	1963	1964	1965	1966	1967	1968
Production million bushels ¹	43.0	43.2	48.1	49.1	50.5	36.3	46.1	55.1	63.6
Net acres harvested '000 acres ²	1184	1196	1268	1296	1304	1058	1284	1332	1432
Yield per net acre harvested, bushels	36.3	36.2	37.9	37.9	38.6	34.3	35.9	41.4	44.4
Gross acres sown '000 acres	1468	1472	1536	1562	1585	1453	1617	1636	1700 ³

1. Crop years include the Maha season beginning the previous year and the Yala season of the year stated.

2. Gross area sown minus crop failures gives gross area harvested; that minus 15 percent for paths, bunds, etc. gives the net area harvested on which official yield figures are based.

3. Estimated.

Source: *Agriculture in Ceylon Until 1975* - P. Richards and E. Stoutjesdijk

In Table XLIX the production of paddy, the net acres harvested and the yield per net acre harvested, show an increasing trend over the years, except for the years 1965 and 1966, when a severe drought and crop failure affected all these variables. This brings into focus the importance of the water input in the paddy production process. As such, the fall in 1965 and 1966 would have been greater if not for the provision of major irrigation schemes and the opening up of new lands.

The increase in output which could be attributed to the increase in yield (and thereby to inputs such as new seed varieties and fertilisers which in turn are influenced by the credit programme as mentioned earlier), may be ascertained by comparing the increase in production between 1960 and 1968 (the increase being 20.6 million bushels) with what the increase would have been in 1968 at the yield rate obtained in 1960. On this basis 56.3% of the increases was due to the use of inputs such as new varieties and fertilisers. This increase in productivity could not have been achieved if the credit programmes had not provided the farming community with part of the working capital needed to raise the inputs to higher levels.

The story of the Agricultural Credit Scheme as it unfolds itself in the fifties and sixties has a recurrent pattern of peaks and troughs. During this period there have been peak years when Agricultural Credit reached substantial proportions and thereafter declined. It is possible to point to several such peak periods during the last 20 years. In 1952/53 loans granted rose to 15 million rupees as against 8 million rupees in the previous year. In 1956/57 it once again reached a peak of 21 million rupees and declined to 10 million rupees in 1962/63. Then again in 1963/64 it reached 34.5 million rupees and declined to 32.3 million rupees in 1966/67. Under the new Agricultural Credit Scheme it reached 73 million rupees during the peak period of participation in the new Agricultural Credit Scheme. It could be concluded that during these peak years, participation in the Agricultural Credit Schemes by paddy farmers was relatively high.

It is difficult to estimate the exact rate of participation from the data available, but some idea of the level of participation could be gained from an estimate of the working capital requirements for the whole of the paddy sector. In 1967/68 which is the year

during which the highest volume of Agricultural Credit flowed into the peasant sector, there was approximately 1.2 million acres of paddy land available for cultivation. Of this extent, the area cultivated for the Maha Season was in the region of 1,100,000 acres. On an estimate of working capital requirements per acre of paddy as estimated in the Agricultural Credit Scheme, i. e. Rs. 220, the total amount of working capital requirements for the entire extent cultivated for the Maha Season would be in the region of 240 million rupees. If one assumes that a certain proportion of farmers with relatively large holdings enjoyed a position of liquidity which made agricultural credit unnecessary for them, the total requirement of agricultural credit would have been less than this figure of Rs. 240 million. The extent owned in holdings above five acres was approximately 300,000 acres. If this figure is excluded from the Agricultural Credit Scheme, the total requirement of agricultural credit would have been in the region of 175 million rupees. From these figures the participation of farmers in the Agricultural Credit Scheme in 1968/69 would have been between 40 - 45 percent.

Another way of arriving at the rate of participation in the Agricultural Credit Scheme is to examine the data for fertiliser used and the proportion obtained on credit. During years of peak performance under the Credit Scheme the percentage of fertiliser obtained on credit was correspondingly high. In 1963/64 it was 35 percent, in 1967/68 it was approximately 42 percent. These figures give some indication of the rate of participation by farmers in the Credit Scheme. In examining these figures it should be noted that the usage of fertiliser among farmers will vary depending on the nature of the paddy land and the region in which it is located, the technological level of the farmer and the efficiency with which supplies of fertilisers are organised at the village level. Therefore the percentage of fertiliser obtained on credit need not be identical with the rate of participation but will only serve as a general indicator. During the peak period when the Agricultural Credit Scheme was in operation it is likely that about 50 to 60 percent of the farmers in need of Agricultural Credit participated in the Credit Scheme.

The impact of the Agricultural Credit Schemes on the total agricultural development programme cannot be estimated only in relation to the rate of participation. The peak years resulted in inputs of agricultural credit which induced farmers to reach higher levels of fertiliser use and improved technology for farming in general.

For example, in 1952/53 when credit jumped from 8 million rupees to 15 million rupees there was a substantial increase in resources made available to the farmer. Even if the rate of participation declined after it reached this peak level, the farmers appear to have attempted to maintain levels of inputs that they reached when credit was available. For example, in 1967/68 fertiliser use rose from 52,000 tons to 84,000 tons and thereafter this level has been maintained although the proportion obtained on credit declined. The sudden drop in fertiliser use between 1963/64 and 1964/65 is attributable to drought conditions which prevailed in 1964/65. The fact that farmers have been able to maintain and improve on the level of fertiliser use in spite of the decline in credit may point to the fact that farm incomes have been increasing in the recent past, farmers therefore enjoyed a better level of liquidity thereby reducing their dependence on credit and at the same time they became more creditworthy for non-institutional lending.

This however should not be taken as an argument that an Agricultural Credit Scheme with a much larger degree of coverage and higher rate of participation is not very essential for an agricultural development programme. The fact is that even the present levels of fertiliser use are far below the recommended dosage and have reached only about 33 percent of these dosages. The recommended dosages themselves are not anywhere near the optimum dosage. An Agricultural Credit Scheme properly administered which ensures the necessary working capital to the farmer to raise the agricultural inputs to the desired technological level can increase production at a very much faster rate than at present. The essential problem is therefore one of implementing an Agricultural Credit Scheme which raises the level of agricultural inputs and consequently raises agricultural incomes and repayment capacity of the farmer. Such a scheme however would have to be so administered that the farmer recognises his obligation for repayment and is fully conscious of the need for continued participation in the scheme in order to achieve a rapid increase in his income.

(b) Farm Income

As explained in the previous section, agricultural credit was one critical input in the programme to raise the level of productivity of the small farmer and consequently raise his income level. However, the Government credit schemes have conformed to a recurring pattern. With the introduction of each new scheme and each reorganisation, participation in the scheme and utilisation of credit by farmers is high. Thereafter participation drops progressively as farmers default on repayment and probably return to non-institutional sources of credit. To the extent that this happens, the benefits from the increase in productivity do not accrue in full measure to the farmer. He incurs debts to the non-institutional lenders at high interest rates and he is unable to avail himself of the guaranteed prices as his crops are hypothecated to the private lender. The rural indebtedness survey conducted by the Central Bank in 1970 indicated that the incidence and magnitude of debt among the farming communities to the non-institutional lenders is quite high. The Survey estimated the total outstanding debt at Rs. 15,713,000 which is an average of Rs. 602 per rural household or 19% of their total annual income.

Another indicator of farm incomes might be the changes that have occurred in the structure of agricultural small holdings. Data available for the period 1958 to 1963 indicate that there has been no significant reduction in the size of holdings at the bottom of the scale. The relative stability in the structure of holdings supports the conclusion that farm incomes have increased and a substantial part of the increment must have accrued to the farmer himself.

Prior to 1967, the guaranteed price scheme for paddy was very helpful to the farmer in that it gave him a higher price than that which prevailed in the open market. After 1967, with the reduction of the rice ration, the paddy market changed dramatically and the open market price per bushel of paddy was higher than that of the guaranteed price scheme; the open market price for paddy steadied at a level comparable to the guaranteed price and at times rose above it and this helped to increase the farmer's returns.

Table L shows the position as regards the gross value of output, production costs and the net return to land and labour, according to the survey on cost of Production of Paddy conducted by the Central Bank of Ceylon in the Maha Season 1966/67.

TABLE L - Gross Value of Output, Production Costs and the net Return to Land and Labour

Gross return		
Yield (bu/acre)	..	40.8
Price of paddy per bu.	..	14.0
Gross return	..	571.0
Production costs		
Cultivation	..	76.04
Seed	..	30.56
Fertiliser	..	17.57
Agro-chemicals	..	4.34
Other	..	7.39 ^s
Total	..	<u>136.00</u>
Man-days per acre	..	42.0
Net return to land and labour		435.00

According to this Survey, the net return to land and labour was about Rs. 435.00 per acre per crop. Yields per acre have further risen after this survey and were about 50 bushels in 1970. With the introduction of new high-yielding varieties, further substantial yield increases are being recorded in the recent harvests. On experimental data from Paddy Research Stations, the net return per acre on a yield of 80 bushels could be as high as Rs. 788 on one crop. With double cropping, the return per acre could be doubled.

These figures do not take into account the cost of hired labour that might be required to supplement the family labour available. It will be seen that for a single crop approximately 42 man-days would be sufficient for cultivation of one acre. With double cropping an acre would be able to absorb 85 man-days which still does

5. The costs in this table represent the national averages excluding labour costs and will therefore not be identical with the figures in Table XLIV.

not amount to more than $\frac{1}{3}$ to $\frac{1}{4}$ of a man-year. This calculation, however, does not take into account the seasonal peaks of labour requirements on the operations that are involved. The demand for labour is not spread evenly round the year and therefore during the peak periods such as ploughing, transplanting and harvesting, hired labour is used to supplement family labour while during the slack season, family labour is under-utilised. However, on a $2\frac{1}{2}$ to 3 acre allotment of paddy, a family with three units of labour would require only a marginal input of hired labour to supplement their own effort. This brief comment on the labour situation in the family farm draws attention to the scope for diversification and multi-cropping which would be able to take up the slack periods that are inevitable in the present mono-cropping pattern. The current programmes of the government are directed at such diversification and have as their objective the raising of income levels in the farming community.

(c) Technology

The availability of credit has no doubt improved the capacity of the farmer to absorb the new technology and adopt the better cultural practices, e. g. the use of high-yielding seeds, fertilisers, agro-chemicals, etc.

TABLE LI
Fertiliser Issues by Components (in Tons)

Year	Ammonium Sulphate (N) 20.6%	Urea 46.0%	Rock Phosphate 27.5% (P ₂ O ₅)	Muriate of Potash 50% (K ₂ O)	Compound Fertiliser 15% (P ₂ O ₅) 15% (K ₂ O)	Concentrated Super-phosphate 42.0% (P ₂ O ₅)	Bone Meal	Mixed Fertiliser	Total
1958-59	12,832	503	8,700	4,306	-	-	-	-	26,341
1959-60	11,473	107	5,521	5,521	-	-	-	-	22,622
1960-61	18,512	258	6,723	-	-	-	-	-	25,493
1961-62	24,747	675	8,020	4,633	-	-	-	-	38,075
1962-63	31,023	872	9,946	5,217	-	-	-	-	47,058
1963-64	9,780	3,131	11,389	5,796	-	-	-	-	60,096
1964-65	26,266	2,567	8,676	4,537	-	-	-	-	42,046
1965-66	19,582	7,014	9,078	4,811	-	-	-	-	40,485
1966-67	18,154	12,624	13,241	7,462	500	72	540	262	52,855
1967-68	29,907	19,219	16,441	10,496	5,791	1,370	830	177	84,231
1968-69	23,710	26,384	10,968	9,356	10,469	5,162	17	-	86,066
1969-70	23,297	28,150	7,512	8,732	10,641	7,025	-	-	85,357

(Source: Department of Agrarian Services)

The total increase in the use of fertiliser was at an annual compound rate of 12.6%. The credit programme has had an appreciable impact on the use of fertiliser throughout the Island. Fertiliser is supplied under the credit scheme and also made available for purchase on a cash basis. The farmers are able to purchase their requirements from the Co-operative Societies which are the point of retail distribution at the village level.

Table LII shows the inputs in paddy production from 1960 to 1967.

It also shows that the most important input has been fertiliser which has shown a continuing increase from 1960 to 1967. The data on the value of agrochemicals is available only for the year 1966 during which year Rs. 3.5 million worth of agrochemicals had been used. The use of certified seed paddy varieties shows an increasing trend although the figures for 1963 to 1966 are not available.

Little information is available on the benefits of transplanting, but according to the Survey on Cost of Production of Paddy, the average yield per acre from transplanting was higher than from the broadcasting method. This is shown in Table - LIII.

According to this Table, the yield obtained from transplanting was 47.27 bushels per acre (all-Island average) as compared with 30.70 bushels per acre obtained from the broadcasting process. Transplanting however is a labour intensive process and family labour would have to be supplemented with hired labour if the farmer is to adopt this practice. This would necessitate an increase in his working capital. It draws attention to the importance of agricultural credit in any programme for improvements in the technology of farming.

(d) Savings and Other Sources of Finance

Under the existing credit schemes there is no stipulation that the farmer should save a certain part of his profits. However, the farmers are obliged to become members of the Co-operative Societies by the purchase of at least one share costing Rs. 50 and this share capital is payable in 10 instalments. It is likely that these instalments are paid from the income received. It is also a fact that the number of savings accounts and the quantum of savings deposits in the Rural Banks have increased over the years as can be seen from Table XV discussed earlier. It was seen that credit is also given to farmers for acquisition of capital assets such as water pumps. These schemes which operate on a limited scale, have in a small way, contributed to channel farm incomes into capital formation. However, for the most part farmers have been dependent on short-term credit for their requirements of working capital. There is increasing evidence however that a small minority of farmers who are highly productive and have small holdings above the average size have reached a level of income and achieved a state of liquidity that have rendered them self-reliant.

The credit programme so far has not induced any other Bank, except the People's Bank, to come into the new Agricultural Credit Scheme. It is unlikely that any other Commercial Bank in Sri Lanka would like to come into the Scheme under the present conditions. It is not only the low interest rates that have discouraged the flow of capital into farm finance, but also the lack of collateral and the high incidence of defaults. However, the non-institutional sources of credit have continued to be an important source of finance.

(e) Employment

The average requirements of labour for growing one acre of paddy comes to about 60 man-days. This can, however, vary from about 40 man-days under the broadcasting process to 80 days under transplanted paddy. Among the various operations that are necessary for paddy cultivation, land preparation accounts for 30-40% of the total labour requirements. Next in order of importance comes "Dry/thresh, bag, transport" accounting for another 25-30% of the labour requirements. These two operations together constitute about 55-70% of the share of the labour requirements. The other important operations are harvesting, irrigation and weeding.

There is no data to show that the credit programme has had any positive employment effects but it may be said that the programmes have contributed to the increased use of improved practices such as transplanting, weeding, etc. which means that additional labour will be employed for these purposes. From this point of view, it may be accepted that the credit programmes have, in one way or other, contributed towards employment in the rural sector.

The estimated labour requirements for crops, other than paddy, are shown in Table LIV.

TABLE LIV

Estimated Labour Requirements for Crops (other than Paddy)

	Irrigation Programme Review	Draft Agricultural Plan, 1971-77
	Man-days per acre	
1. Red Onion ..	210	216
2. Bombay Onion ..	220	307
3. Groundnut ..	75	-
4. Cotton (irrigated) ..	70 ¹	82
5. Tobacco (cigarette) ..	125 ²	220
6. Sugarcane (planted) ..	100 ³	-
7. Green gram ..	30	42
8. Maize ..	35	50
9. Chillies ..	205 ⁴	208
10. Tomato ..	-	142

1. Cotton on chena = 40 days
2. Beedi tobacco = 85 days
3. Rattoon 182 - 60 days
4. Present - 85 days.

(Source: Notes on Rural Policy—Ministry of Agriculture & Lands)

As can be seen from the above Table, the per-acre labour requirements are the highest for red onions and Bombay onions. In the case of groundnut and cotton, about 75 man-days are required. The lowest labour requirements are for green gram and maize, being around 40 to 50 man-days.

In the case of intensively cultivated crops such as onions and groundnuts, labour requirements for weeding and irrigation are quite substantial. For crops that are not intensively cultivated, e. g. green gram and maize, a major share of the labour requirements goes towards land preparation. In general, labour requirements for all those crops are within reasonable limits and will rely substantially on family labour but as stated earlier, during certain months of the year it may be necessary to employ additional hired labour or mechanise some of the operations such as land preparation, for

which tractors are extensively used. Credit has been given under three schemes for the cultivation of the above crops and as such, an expansion of the cultivation of these crops would mean that the credit programme will help in the diversification of peasant farming with the introduction of employment intensive crops and by this means increase employment in agriculture.

(f) Political and Social Structure

It is difficult to make any reliable assessment of the political implications of these credit programmes. However, the rural voter has the highest weightage in the national electorate. All programmes affecting his welfare have very high political priority in a democratic system based on universal franchise as operating in Sri Lanka. Government policy in regard to the administration of agricultural credit is therefore significantly influenced by political factors. The desire to expand rural credit, lenient treatment of defaulters, the grant of amnesties in respect of past debts, the reorganisation of schemes and introduction of new schemes to widen the coverage and increase participation are all influenced by the political motivation to appease the numerically strongest section of the electorate. Succeeding governments have given their attention to agricultural credit. While the Schemes have the primary objective of assisting the small farmer to increase production, their formulation and implementation have been greatly influenced by political considerations.

In regard to the social structure, a few aspects deserve comment. The Government Agricultural Credit Schemes with all their shortcomings have improved the condition of the farmer in that he is less dependent on the middlemen and traders.

The influence of these social groups – the middlemen and the retail traders – has diminished in village society, and to that extent the small farmers have become more independent of extortionate sources of credit. Although the data indicate that the average farmer oscillates between the government source of credit and the non-institutional source, the presence of competing sources of credit by itself has changed the social environment in which the farmer operates. Another aspect that needs comment is the structure of ownership. As stated earlier, the structure of small holdings has

remained relatively stable. Although there has been some increase in landlessness and a considerable accumulation of rural unemployment, there is no evidence pointing to major fragmentation of holdings or concentration of ownership. If the smallholder had been entirely dependent on non-institutional sources of credit, the picture might have been very different, as quite often lands that were hypothecated to non-institutional lenders were eventually taken over for unpaid debts. The society of smallholders has continued without any significant alterations in the pattern of ownership. Finally, the Agricultural Credit Schemes have helped to strengthen some of the new institutions at the village level - the Co-operative Society and the Rural Bank. Although these institutions have many shortcomings and have not been fully effective in achieving their objectives, the enlargement of their functions through the Agricultural Credit Scheme and the expansion of the economic activities of these institutions have given them a crucial role in the village economy.

3. Progress towards other objectives

The secondary objective of this scheme was to relieve the peasants of their chronic indebtedness to non-institutional sources. But according to the available data, and as revealed by the Survey of Rural Indebtedness in 1969, the credit schemes have not been able to relieve the peasant from his indebtedness to an appreciable degree. However, it may be said that if the credit schemes were not available the position of the peasant would have been worse, in relation to his credit needs.

4. Image

(a) Farmers' Attitudes

The attitude of farmers to the Agricultural Credit Schemes has been influenced by the welfare policies of the government as a whole. The food subsidies, free medical treatment, free education, relief during crop failures and generous schemes for settlement of landless peasants, has created the expectation among the rural poor that the function of the State is to provide them with free assistance in all their activities. The attitude of considering the government as a source of free services has therefore influenced

the farmer in his approach to the agricultural credit scheme. He is aware that the government is both a lenient and generous creditor from past experience. He therefore makes use of the short-term benefits of repudiating his debts to the government (or People's Bank) and has recourse to a less generous non-institutional lender until the government once again admits him to the credit scheme.

According to the Report of the Survey of Defaults about 12% of the defaulters had no intention to repay the loans because they thought these loans were advanced in pursuance of State policies and should be regarded as outright grants or would be ultimately written off. Nearly 15.7% of the defaulters did not expect to repay the overdue loans. These unpaid loans comprised 17.9% of the loans overdue. Opinions sampled in the survey indicate that some of the defaulters rationalised their defaults by being critical of government programmes which had failed to make any substantial improvement in their conditions. They therefore argued that the government could not expect them to possess the capacity to repay their loans.

As against this picture of default it should be noted that recoveries under the new Agricultural Credit Scheme have been about 64% and the amount overdue about 26%. These figures would indicate that still a large number of peasant farmers who participate in the scheme have fulfilled their obligations and have protected their eligibility to the scheme. What is disturbing, however, is that as in the case of past schemes the volume of credit has sharply declined and the rate of default has continued to increase. It is the image of the Credit Scheme among the farmers who have responded positively to it that needs to be identified clearly and projected in a manner which influences the other elements in the farming community who have repeatedly caused the breakdown of the scheme.

The basic motivation for repayment present when the farmer deals with the non-institutional lender is not present in his relations with the government. The money-lender is a fairly influential person in the village community and has a controlling voice in some of its economic activities. He may be a retail trader who supplies

the consumer needs; he may be a landlord. He has enough authority to enforce the borrower's obligations, as normally he would have obtained collateral for the loan either in the form of property or in the form of the crop. In the case of the government scheme, there are no punitive measures, no firm legal sanctions for recovery except the negative sanction of not being able to borrow again. Hence the attitude of the defaulter.

(b) General Image of the Programme

There is general agreement among policy makers and planners that the Agricultural Credit Scheme is an indispensable link in the chain of programmes required to modernise the traditional agriculture of the peasant farmer. The fact that governments have made repeated attempts to reorganise the schemes and render them effective is testimony of the priority attached to the programmes. At the same time, it has been acknowledged that the economic viability of the scheme has been jeopardised by the welfare expectations of the beneficiaries on the one hand and the welfare approach of the policy makers on the other.

The general image of the scheme has therefore suffered as a result of the framework of welfare policies within which it is set. A major effort made in the New Agricultural Credit Scheme was to transform the general image by making the People's Bank the lender. It was felt that the Bank would impart the necessary commercial discipline to the scheme as a whole and the commercial nature of the transaction would become clear to the borrower when the Bank becomes the principal agency. This, however, did not succeed as there was no loss to the farmer nor effective penalty in the case of default. The change of agency was therefore only a formality.

Apart from the general policy image of the scheme, the implementation often tended to confirm its unbusinesslike character. The instrument at the village level, the co-operative society, was partly to blame for this. It was caught between its membership and the main lender. Its links with the membership made it either ineffective in its efforts at recovery or deliberately neglectful of its obligations to recover the d.bts. The Default Survey draws

attention to this aspect. Unlike the private lender the Co-operative was the creature of the borrowers and often did not inspire the fear and respect the non-institutional lender inspired. It therefore could not project its image as a lender responsible to the bank and ready to exert all its influence and use all sanctions available to it to fulfil its functions as an agent of the bank. In this function, its effectiveness also depended on how efficiently it operated as a co-operative society and rendered services to the community. The general image of the co-operative society was poor; its management standards were relatively low; some societies were not free of corruption and irregularities; the honorary office bearers could seldom give their attention to it on the basis of a full-time business activity even if they possessed business ability and management skills which most often they did not. Consequently, the Agricultural Credit Scheme itself became part of this general framework and its image inevitably suffered.

According to the way in which the scheme has functioned in the past, it has become with other similar programmes of the government, a means for the transfer of incomes. The criticism of policy makers, planners and committees who have appraised the scheme has drawn attention to this aspect, that is, the resulting burden on the government and the net effect of inflationary financing that it produces. But all critics are agreed that the agricultural credit scheme cannot be withdrawn for these reasons as it helps to meet a part of the requirements of working capital in the peasant sector which is too vital to be neglected. The indispensability of the scheme, the unquestioned benefits to the peasant sector as a whole, and the need to reduce the rate of default and make it economically viable constitute the main elements of the public image of the scheme.

(B) Evaluation Procedures and Feedback

I. Programme Evaluation Procedures

There are no significant evaluation procedures built into the credit programme. But however there is a certain amount of credit supervision to see that the loans are utilised for the purposes mentioned. For this purpose the committee of the co-operative

society studies the increase in the quantum of production by a farmer, and purchase of any equipment by him and also any new technologies that they have used. By these means the Committee is able to get some idea of how the credit has been utilised.

There has been no sample survey done to find the income changes as a result of these schemes. To some extent, the crop deliveries made by the beneficiaries are recorded at the Co-operatives. Table LV shows the district-wise paddy purchases made by Co-operatives in 1967/68, 1968/69, 1969/70.

According to the above Table, Amparai has the highest paddy purchases followed by Polonnaruwa, Batticaloa, Trincomalee and Anuradhapura. The total paddy purchased in 1960 showed a decrease of 397,007 bushels when compared with the 1967/68 figures. This is partly explained by the favourable conditions in the open market for paddy, following the reduction of the rice ration. In 1969/70 there is an increase of about 4 million bushels over the 1968/69 figure. This is partly due to the increase in paddy production in 1969/70.

In regard to the evaluation of the impact of the credit schemes on the incomes of peasant farmers, it has to be noted that no surveys have been carried out for the specific purpose of ascertaining and measuring the effects of these schemes. But surveys have been carried out to determine the cost of production of paddy. The Central Bank of Ceylon conducted a survey on the cost of production of paddy during the Maha season of 1966/67. In this survey, information was sought by interviewing farmers. The average cost per acre exclusive of labour costs, was Rs. 162/39. Labour costs (exclusive of family labour) vary widely among the different districts of the Island. The survey data has been of some value in ascertaining the credit needs of the farmer as far as his costs of production of paddy is concerned.

There have been several other studies and reports which have made estimates of farm expenditure and production costs of various crops. The reports of the Irrigation Programme Review-Ceylon, F.A.O./I.B.R.D., and the Co-operative programme (January 1968,)

gives estimates of the per acre requirements by operational costs of material, for paddy and other selected crops and also other information on the use of fertilisers, seed paddy and irrigation facilities. The I.B.R.D. Mission in 1972 has prepared similar estimates for a wide range of crops.

A Socio-Economic Survey of nine colonisation schemes in Sri Lanka was conducted by the Agricultural Economic Research Unit of the Faculty of Agriculture, University of Ceylon, Peradeniya, 1967/68. This study gives information about incomes and expenses, farm costs and labour supply, intensity of cropping, fertiliser use, credit and indebtedness and several other aspects of peasant farming.

The Mahaweli Ganga Irrigation and Hydro Power Survey conducted by the Food & Agricultural Organisation of the United Nations also provided estimates of the budget costs and returns per acre from paddy cultivation.

The most recent and important survey in respect of the credit schemes now in operation was the Default Survey conducted by the Central Bank in 1972. According to this survey, by the end of 1971 defaulters on loans under the new Agricultural Credit Scheme had progressively increased and the State was facing the prospect of incurring substantial losses under the scheme. A defaulter was defined as any borrower under Agricultural Credit Scheme in respect of whom any repayment was overdue. The survey covered all 22 districts of the Island. The principal objective of the survey was to find out the main reason for the low rate of repayment of loans with a view to improve the working of the present scheme.

2. Feedback and Changes in Programme

The agricultural credit schemes administered by the government were subjected to periodic evaluation and re-appraisal. This was partly necessitated by the deficiencies in the schemes under operation and the unsatisfactory rate of recovery of loans granted. In 1963 a critical analysis of the Credit Scheme as it had operated from 1947, was undertaken by an official committee appointed by the Minister of Agriculture, Food and Co-operatives. The objective of the committee was to study the scheme as it was in operation,

and make recommendations as to how the scheme should be used to facilitate the adoption of improved cultural practices particularly in paddy cultivation and to expand the use of institutional credit vis-a-vis the credit available from private money-lenders. This Committee found that only about 65% of the paddy cultivators in Sri Lanka were members of any Co-operative Society. About half the cultivators who were members of the Co-operative Societies were share capital defaulters and were, therefore, ineligible for the receipt of loans. Also about one-third the number of Co-operative Societies were considered uncreditworthy. Most members had paid only one share and their maximum credit limit was thus limited to Rs 220.

The Committee made 22 recommendations which were subsequently accepted by the Cabinet in July 1963. Of these 22 recommendations, 12 were intended to expand the flow of institutional credit to intensify agriculture, while 10 recommendations were designed to strengthen the procedure for loan recovery and distribution of credit. The recommendations regarding the expansion of institutional credit were implemented without adequate attention being given to the recommendations of the Committee calling for a stricter control on recoveries. This resulted in an increase of overdue loans from 9% in September 1963 to 15.8% in September 1965.

The government appointed another Committee on Agricultural Credit in June 1966 to review the credit schemes that were in existence at that time. In their report the Committee brought forward its proposal to establish a new Agricultural Credit Scheme, which was put into operation in 1967. This has been described in Part II of this report. Because of the farmer's inability to repay loans, the government has been forced (in order to encourage paddy cultivation) to give waivers of loans from time to time. It would be observed therefore that there has been regular feedback on the performance of the credit schemes and repeated efforts have been made to introduce changes and modifications to overcome some of the problems encountered.

C. Problems

I. Government Level

(a) The Government's basic problem in regard to the agricultural credit schemes derives primarily from the failure to recover a considerable portion of the loans granted. The increasing rate of default has a whole chain of adverse consequences:

- (i) It immediately impairs the self-financing capacity of the schemes, casts a heavy burden on the Central Government and affects the limits of expansionary financing within which the government seeks to manage the country's monetary system.
- (ii) It reduces the economic impact of the scheme in that it progressively reduces the coverage of the scheme as increasing numbers of defaulters become ineligible to credit.

(b) The successful implementation of a credit scheme will depend heavily on the close co-ordination between the numerous agencies which are engaged in promoting the development of the peasant sector—the credit agencies like the People's Bank and the Agrarian Services Department, the Co-operative Department, the Extension Services of the Agricultural Department, the Land Commissioner's Department which administers the new agricultural settlements and so on. The extension services of the Agricultural Department provides the farmer with the technical know-how to increase his output and to raise his level of productivity. These services are mainly responsible for ensuring the timely preparation of the cultivation plan.

The Agrarian Services Department is responsible for (1) the implementation of the Paddy Lands Act No. 1 of 1958, (2) the working of the Guaranteed Price Scheme for specified agricultural products except paddy, (3) the grant of long-term and medium-term loans to cultivators, Co-operatives and Cultivation Committees, for agricultural purposes, (4) the supply of agricultural inputs such as fertiliser and agricultural implements, (5) the construction of irrigation wells for food production purposes, and (6) the working of the Crop Insurance Scheme.

The People's Bank is responsible for the granting of the necessary finances under the three credit schemes discussed earlier. This bank also grants loans for the purchase of fertilisers etc.

The Co-operative Department is responsible directly to the Minister for the implementation of policy regarding Co-operatives. This Department is also responsible for the registration, audit and supervision of the Co-operatives. The government exercises considerable authority and control over the Co-operatives. The Co-operative organisation is used by the government as the agent in the distribution of a selected range of essential foodstuffs, in the grant of credit, in the purchase of agricultural produce, in production and various other activities in which co-operative action could be organised for the development of the community.

The Paddy Marketing Board is now responsible for the purchase of paddy.

Recent legislation relating to agricultural productivity envisages the creation of another set of agencies at the local level which will undertake a number of functions relating to agricultural activity.

The effectiveness of the credit programme could have been enhanced if all the various agencies directly linked with the farmers could have co-ordinated their efforts more closely in relation to the operation of the Agricultural Credit Scheme. This would have meant more intensive propaganda among farmers regarding their obligations and the value of remaining in the scheme. Defaulting farmers would have been singled out for attention and criticism, at all points - extension, marketing, co-operative activity and so on.

(2) Agency Level-The Co-operative Societies

The major problem at the agency level is the poor management of the Co-operative Societies-according to the report of the Co-operative Commissioner, "if there is one cog missing in the mechanism of the Ceylon Co-operative Movement it is the cog of management; it is in respect of capable managers that most societies are found wanting". Poor management is reflected in the inefficiency in managing the loan schemes. In many societies the accounting of loan disbursements was unsatisfactory. The Defaulters' Survey draws

attention to the poor state of the records relating to disbursements and repayments of interest. The laxity in the recovery of loans is due to a deeper malaise than mere inefficiency. It reflects the attitude to the Scheme itself and the conflict of loyalties and obligations within the Co-operative itself where the "goodwill" of the membership rates higher than the responsibilities to the People's Bank. The operation of the Scheme in regard to the approval and granting of loans has often come in for criticism on account of the delays encountered by borrowers. Most often, the Co-operative Society as the agency of the credit scheme at the village level has not adequately performed its task of understanding, managing and promoting the Scheme. However, the problem of good management in the Co-operative Society has several underlying causes. The lack of competent managers in the Movement is partly due to the low salaries paid to co operative employees. The economic philosophy of the Co-operatives where prices to the consumer are kept at minimum levels prevents the accumulation of sizable profits which in turn has its consequences for cadres and salaries, and the resulting poor management completes the vicious circle of low efficiency and low profits or losses. In the reorganisation of the Co-operative movement, the government is paying attention to ways and means of improving the economic viability of the co-operative units and raising its quality of management.

The lack of sustained interest in the Co-operatives, activities by the office-bearers and the membership is another factor in its poor performance. In regard to the office-bearers, it has to be noted that the honorary and voluntary character of their work probably bears some relation to the managerial concern they bring to their responsibilities and the standards of honesty they maintain. A new approach to this problem therefore appears necessary. The lack of active participation by the membership is another factor which reinforces the conditions which result in low standards of management and efficiency. Active participation will depend on the economic significance the Co-operative has to a member. As his links with the Co-operative grow in strength in relation to consumer supplies, supplies of farm intermediates, marketing of produce, credit, and savings, his participation may become stronger. To the extent that the Co-operative's activities are marginal to the member's economic activities, his participation is bound to be indifferent.

The work of Co-operatives has also suffered by being too closely linked with the politics of the locality. Control of the Co-operative is sometimes influenced by political rivalries and there is intervention in the affairs of the Society by both politicians and others not directly responsible for its management. It is therefore essential to establish the economic character of its functions and ensure its autonomy in regard to non-economic influence and factors which divert it from its objectives as an economic enterprise and reduce its efficiency.

3. Farm Level

The problems encountered at the farm level in the operation of the Agricultural Credit programmes have already been described in different sections of this study. They may be briefly summarised as follows:

(i) The coverage of the Scheme has been limited. Varying estimates have been made of the extent to which the Schemes have been able to fulfil the credit needs of the farming community. According to one set of estimates, the programme at best has been able to reach about 25% of the farmers. Of the credit obtained for paddy, the institutional programmes have been able to meet about 50%. Among the variety of causes for the restricted coverage of the scheme, the quality of the administration of these programmes was a major factor. The initiative and incentive to reach as many farmers as possible were not always present. Consequently farmers in less easily accessible areas were neglected. The progressive increase in the rate of default and the number of the participants who became ineligible for credit, became a disincentive for expanding the coverage of the scheme.

(ii) The credit was not always available in time for cultivation. The complicated procedures, the time taken to process credit applications and the inefficiency of the Co-operative system, were responsible for the delays.

(iii) Farm credit for different purposes had to be sought from different agencies. Short-term working capital needs were met from the Agricultural Credit Scheme, as well as non-institutional sources; loan capital for certain types of production investments from the

Agrarian Services Department; credit for other investment purposes such as housing from other lending agencies; and credit for consumption, relief of distress such as illness, death etc. from non-institutional sources. The wide range of lending sources and conditions of lending complicated and confused the situation regarding rural credit and rural indebtedness. The credit needs of the farmers for purposes other than agriculture had to be met from non-institutional sources and this situation itself created conditions in which these non-institutional sources took control of the farmer's production and marketing and rendered the "institutional" programme of agricultural credit ineffective.

(iv) The Agricultural Credit Scheme as operated, did not take into account regional variations which affected the pattern of cropping, the cost of production and the creditworthiness of farmers. Both "highly productive" and inefficient farmers were treated alike. The uniformity of the credit limits also ignored the differences in the credit needs of the farmers.

(v) The lack of a proper system of land tenure. The prevalence of a share-cropping system which deprives the farmer of a great part of the fruits of his labour, makes him reluctant to invest capital, because the other partner will also benefit without any contribution on his part. Under such circumstances, a systematic increase in productivity can hardly be forthcoming. The same applies where farmers have no security of tenure or where the leases granted to them are for a short period of time. Under the circumstances there is also the possibility of the farmer having to pay a higher rent, if he shows an increase in his productivity.

The non-institutional sources were able to effect recoveries because their lending was closely linked to marketing—the lender had a lien in the crop or had the land as collateral. The Co-operatives had to depend on persuasion to get the farmers to deliver their crops to the Society. Where the produce was delivered to the Co-operative, the loan recoveries were effected without difficulty. But delivery of produce at the Co-operatives was fraught with problems for the producer—grading of the produce, rejections for poor quality, delays in acceptance of the produce when delivered, and corruption. Owing to these defects in the Co-operatives, the close co-ordination of lending and marketing essential for the success of the Agricultural Credit Scheme could not always be achieved.

D. Conclusions about small farmer credit

I. Economic problems of small farmers.

The economic problems of the small farmer eventually have their source in the low farm incomes and the level of technology. The circularity of these problems is obvious and has been repeatedly analysed—the low incomes, the low savings or indebtedness, the lack of resources to absorb new technology, the poor organisational capacity at the village level for self-management and the creation of efficient institutions for credit, marketing etc., and the resulting low productivity and income. The specific problems of small farmers that deserve comment here are enumerated below:

(i) Poor organisational and managerial skills to operate the village level institutions such as the Co-operative Societies successfully. This requires a new approach to the management problems at the village level. Technological extension services would have to be supported by a new type of management extension service where farmers are given the basic elements of farm management, marketing, operation of small business units such as village stores, co-operatives, etc.

(ii) The marketing network. While the paddy market is relatively well organised through the G.P.S., there is still a great deal of improvement needed before the Co-operatives function as efficient self-managing marketing institutions for the farming community. But outside the Paddy sector, the links between the farm and the consuming centres are weak. As a result the farmer does not receive the best price for his produce. Modern marketing has been best organised in the tobacco industry, where a highly efficient manufacturing enterprise has provided a package programme of agricultural know-how, credit, and marketing to a widely dispersed community of small holding cultivators of tobacco. Similar machinery which streamlines the chain of economic activities from production to retail marketing, is necessary for various other crops. e.g. vegetables, fruits, minor export crops, subsidiary food items, soya bean, cassava etc., if the small holder is to diversify his farming activities, become market oriented and raise his productivity and income level.

(iii) The infrastructure for farming has to be improved. This includes irrigation, drainage and reclamation. In the Dry Zone, the farmer suffers from a lack of water and this requires better use of water resources, new irrigation schemes, and rehabilitation of existing ones, including the improvement of existing distribution systems to minimise transmission losses. In the Wet Zone, there is often an excess of water and this requires drainage and flood control. Government programmes have taken account of both needs, but owing to limited capital resources these programmes cannot expand facilities at the pace required. Farm to market roads and an efficient rural transportation system are other important elements.

(iv) Comprehensive credit facilities. The specialised credit programmes have to ignore the farmer's credit needs for other purposes if he is to effect the transition from traditional low productivity farming to the intensive market-oriented scientific farming. A selective credit programme which caters to the credit needs of the farmer as a whole appears an urgent need. In this connection the comments in (iii) under 'Problems at Farm Level' are relevant.

(v) **Administrative and institutional support.** The slowness or failure to deal effectively with the economic problems of the farm derive often from the shortcomings in the institutional set-up and the administrative system which deals with the farmers. The multiplicity of organisations at the village level each representing a separate government department or activity, and the innumerable lines of communication with the Central Government have led to inadequate co-ordination at the farm level. These have been overcome to some extent in "Special Projects" which are 'special development areas' in which all the activities—extension, credit, irrigation, marketing, supplies and co-operative activities—are closely co-ordinated by a team of officials under a "Project Manager". The special project offers a prototype of rural administration which might provide the necessary managerial and technological inputs that can speed the process of modernisation in the rural sector.

Social Problems

(i) These problems are closely connected with the problems enumerated in the preceding section. The old forms of social organisation based on caste divisions persist in the new setting. While they are present in the traditional villages and have achieved some state of equilibrium and adjustment, they are evident in the new settlements where different castes have been brought together. These divisions and value systems certainly affect the growth of new co-operative institutions and community action at the village level. But the operation of the caste system has never been as rigid as in the Indian sub-continent. The mass education system which penetrated all rural areas and dramatically raised the standards of literacy has acted as a solvent in the traditional society and contributed to a slow breakdown of the traditional values. The rate of literacy in the age group 15-24 is over 90% compared with approximately 60% for the group over 55 years of age.

(ii) The growth of education has affected the attitude to agriculture among the young generation in the rural sector. The demand for employment is unceasingly for jobs in the modern sector – factory type, skilled, clerical, administrative and professional; non-manual as against manual; wage earning as against self-employed. These job aspirations by-pass agricultural occupations. Consequently, there has been a rapidly growing unemployed workforce of rural educated youth.

Political problems

(i) The national electorate has been divided fairly evenly between the two major political groupings in the country. These divisions are often reflected at the village level where their activities affects village life. Political activity affecting the village is at two levels: there is the political activity relating to local government – the village council – and the national politics in regard to parliamentary elections. The political divisions at both levels are more or less identical, local politics generally reflecting the party grouping at the national level.

(ii) The role of the politician and particularly the Member of Parliament in village life, is an important one pervading all aspects. The Member is an Ombudsman for the constituency, sponsoring his constituents for employment, intervening in real or imagined grievances against the administration, having a voice in the transfer and appointment of public servants in his constituency, overseeing government programmes in his electorate and exercising his influence in village level institutions—Co-operative, Rural Development Society, Village Council and Divisional Development Council. This works both to the advantage and disadvantage of development programmes. A capable honest politician becomes the instrument for activating a lethargic administration and motivating the people; an incompetent self seeking representative interferes in the administration of the institutions, impairs their efficiency, and demoralises the public service.

(iii) The close links between the Member of Parliament and his constituents result in strong popular pressures which move government policies and programmes in the direction of welfare. The defaults and amnesties under the Agricultural Credit Scheme partly illustrate the impact of politics.

2. The role of rural credit in meeting these problems

In different sections of this study an attempt has been made to assess the role of agricultural credit in relation to various aspects of agricultural development in the small-holding sector. These could now be summarised:

(i) It has to be noted that the Agricultural Credit programmes were able to reach only a minority of farmers. Even so, there is no doubt that the presence of the Agricultural Credit Scheme combined with guaranteed prices, had mitigating effects in regard to the credit available from non-institutional sources, and assisted the farmer to improve his economic conditions.

(ii) The Agricultural Credit programmes supplied approximately Rs. 567 million, mostly as working capital to the small farmer, and thereby helped him to raise the level of inputs, increase his yields and reach a higher level of income. Credit for investments on farm equipment helped farmers to add to their capital resources and operate at a higher level of efficiency.

(iii) The Agricultural Credit Schemes also helped to establish the co-operative movement firmly at the village level and link production and marketing with co-operative consumer activities. By this means it strengthened the institutional infrastructure for small holding agriculture and in spite of numerous shortcomings, laid the basis for associations of producers to manage their economic activities and protect their interests through well-organised marketing and credit arrangements.

(iv) The growth of the co-operative movement was promoted by a variety of government programmes and policies—the rationing system, the guaranteed price scheme etc. —of which agricultural credit was one important element. The Co-operative Society with all its defects was the major new institution at the village level which gave room for popular participation in economic activities, and attempted to promote collaborative efforts which cut across the factionalism at the village level. Inevitably it partook of the value system in its environment, but its structure made it possible for the village community to work itself out of the divisive and faction-ridden context, where the Co-operative Society was properly motivated.

(v) Agricultural credit is only one element in a whole complex of development activities which are needed to modernise peasant farming. Its role has therefore to be appropriately assessed. Within this overall framework, agricultural credit programmes in Sri Lanka have exploited only a small part of their potential to speed the modernisation process, for the reasons that have been set out in the earlier sections.

(vi) Owing to the laxity with which the Schemes were administered, they generated the wrong type of expectations in small farmers, increased their dependence on government assistance and inhibited the growth of attitudes which emphasised self-improvement and self-reliance.

3. Credit and the New Technology

The importance of agricultural credit in the spread of new farm technology has already been discussed in Section H. With the improvement of technology, the small farmer is slowly moving from a monocropping undiversified cultivation pattern, which depended largely on paddy, to a diversified pattern with high-income crops such as chillies, onions, soya, etc. Apart from the more sophisticated management that would be needed, the new type of farming will require more costly inputs of fertiliser, seed material, labour and so on, and therefore call for larger working capital resources on the part of the farmer. In the initial stages of this diversification programme, agricultural credit will have to play a very important role. In time, the higher level of farm incomes may provide scope for an increase in savings and improvement in the liquidity position of the farmer, reducing his dependence on recurrent short-term credit.

4. Conditions for success or failure and possible improvements

The history of agricultural credit programmes in Sri Lanka, drew attention to the conditions which are indispensable for the successful operation of a small farmer credit scheme in the country's context and the combination of socio-economic and political factors which operate within it.

(1) The discipline of a commercially viable, self-financing credit scheme is the first priority. This discipline has to be accepted at all levels — by national policy makers, by the implementing agencies such as banks and co-operatives and by the beneficiaries. Primarily, this means action on defaults and elimination of defaults, and such action will depend first on the determination of the policy makers to discard the vestiges of the welfare approach to agricultural credit and cease regarding it as a means of income transfers. The fact that the laxity of administration of Government Schemes drives the farmer to non-institutional sources of credit which are less favourable, needs to be emphasised. There is also the fact that the majority of farmers live with these sources of credit, and even though less favourable, make use of it. Legal sanctions for recovery of loans and the actual imposition of these sanctions is an essential prerequisite for the success of a credit programme.

(ii) Effective recoveries will depend on the efficiency with which credit is linked to marketing. The monopoly purchase of paddy expects to achieve this co-ordination. Under this scheme, the farmer will have to deliver his produce to the Co-operative Society as there will be no other outlets for his produce. This programme has come in for a great deal of controversy. In principle, the monopoly will firmly tie up credit and marketing, but doubt has been expressed as to whether the State marketing system and the Co-operatives possess the administrative capacity to handle the entirety of the market in rice and whether bureaucratic inefficiencies will cause problems for the small farmer which will eventually have repercussions on his productivity. The other problem relates to the diversification programme. Monopoly of the paddy market will still leave out a considerable portion of farm produce, and increasing diversification will increase this proportion. It seems necessary that agricultural credit in all these cases be tied with marketing. This could be achieved if the co-operative has a lien on the crop of the farmer who obtains credit and if the co-operative is legally and administratively equipped to enforce this lien.

(iii) Specialised programmes of credit geared to a specific purpose and fulfilling part of the credit needs of the farmer, have proved to be inadequate. As a result, the rural sector has had a multiplicity of lending sources both institutional and non-institutional. While the farmer may go to the institutional lending source for his agricultural credit, he is compelled to seek other sources of finance for other purposes such as expenses in the case of ill-health, death in the family, housing, consumption needs etc. When he becomes a "victim" of non-institutional credit, his agricultural activities become inevitably drawn into the "non-institutional" net. He pays more interest, pays more for his consumer goods supplied by the lender, receives less for his produce and gets into a state of chronic indebtedness to the non-institutional source. The non-institutional pattern of lending however draws attention to the effectiveness of a comprehensive scheme of credit which looks after the whole range of the farmer's needs. The attractiveness of non-institutional credit lies precisely in its capacity to offer a more complete package to the farmer than the specialised schemes of credit. Recognising this aspect the government has been working on a comprehensive scheme of rural credit which:-

- (a) makes allowance for the regional variations in economic activity and credit needs, based on these variations;
- (b) takes into account individual variations depending on the level of efficiency of the farmer, his income level, and repayment capacity. Consequently each farmer could have a credit rating which will determine his eligibility for credit;
- (c) provides for a wider range of needs of the farming family and in this manner makes credit available in the all purpose manner of commercial banking. The purposes will include production loans, consumer loans, loans for construction, loans for redemption of debts, electrification, emergencies etc. Limits for each type of loan, maximum limits for individual borrowers, differential terms of repayment and interest for the different types of loans will be prescribed. Loans will be granted on personal guarantees up to a certain limit and collateral security which will include land and buildings, insurance policies, fixed deposits, shares and other capital assets, will be needed after this.
- (d) elaborate and detailed procedure for credit planning and supervision will depend a great deal on the efficiency of the Co-operative Rural Bank and the Multi-purpose Co-operative Society.

The comprehensive credit scheme offers an imaginatively conceived attractive set of proposals which is expected to revitalise the rural credit programme. Its principal weakness is that it once again depends on the machinery at the village level which proved inadequate in the past.

(iv) This draws attention to the crucial importance of the village level institutions in a rural credit programme. A much more intensive programme for the improvement by these institutions is needed. This should include -

- (a) a concentrated effort to provide the necessary management inputs to improve the quality of management in the co-operative. A Co-operative Management Centre is being established by the government for this purpose. This will have to play a key role.

(b) a co-operative education programme for the beneficiaries, which will elicit greater participation of the membership in co-operative activities, demonstrate the value of credit programmes and the need to protect their eligibility under these programmes through prompt repayment and by these means raise the general level of civic consciousness and social responsibility in the village community.

(v) The supervision of the credit programmes at the village level has to be much more effective and there has to be greater initiative on the part of Co-operatives in the recovery of loans. One of the major problems in the co-operative movement is the honorary and voluntary nature of the services of the body of office-bearers, who are ultimately responsible for the management of the co-operative. Their stake in the success of the co-operative is therefore very different from that of a paid employee or private investor. Some change in the status of the Managing Committee which provides an incentive for successful management and which would result in some personal loss in the event of failure, has to be evolved. This could even be in the form of annual bonuses, on performance.

The evaluation of the performance of credit schemes and follow-up on evaluation has also not been as regular or systematic as is desirable. A periodic evaluation of performance which identifies shortcomings, weak links in the scheme and inefficient co-operation, is essential. The performance of individual co-operatives would have to be given publicity, a healthy spirit of competition generated, public criticism of irresponsible units and a greater civic consciousness generated.

(vi) The rural credit programmes depend for their effectiveness on the other all-important development inputs in the rural sector. These include extension services which impart the new technology, the supplies system which ensure the timely availability of seed, fertiliser and agro-chemicals, the marketing system which ensures timely disposal of produce and the infrastructure which provides suitable well-developed land resources served with irrigation, drainage, transportation etc. Where agricultural credit forms part of a package programme, as in the case of special projects referred to, the most beneficial results have been obtained on farm incomes

and recoveries of loans Savings also have come up to satisfactory standards. Therefore, a pre-condition of effective rural credit is a well-conceived package programme which reaches the farmer.

(vii) Any rural credit programme depends for its success on careful credit planning. This was achieved under the new agricultural Credit Scheme where individual cultivation plans were drawn and credit needs were closely estimated. But credit planning under a comprehensive credit scheme may have to go beyond these limits. Credit planning may have to take a longer time span. project productivity improvements and rise in income levels over this period based on efficient farm management and estimate the capital and working capital needs for creating the capacity to reach a high standard of living. The incentives in the form of a larger package of goods and service and a better standard of living will have to be spelt out in specific terms and should demonstrably be realisable in the near future. A credit plan linked to a farm development plan which may include capital improvements, housing, redemption of debt etc. would receive more ready acceptance of the farmer who will subject himself more willingly to the disciplines of the credit scheme. Pilot projects based on this concept could be implemented and examined for their feasibility.

(viii) While non-institutional lenders have generally operated successfully protecting their loan capital, effecting recoveries and increasing their capital, government programmes have invariably run into difficulties. As stated earlier, this was largely attributable to the beneficiary's attitude to the government which is regarded as a source of charity. In such a context the entry of commercially oriented agencies into the credit schemes can have a salutary effect. Such efficiencies will of course be entirely different in character from the non-institutional lender whose relationships with the farmer are personal ones and therefore not regulated by public norms as in the case of a bank. These agencies would have to be institutions such as commercial banks, public companies which undertake one part of the development activity such as marketing, or well-established voluntary institutions. An example is available in the Ceylon Tobacco Company which provides a package programme including credit and marketing to the tobacco grower. The Ceylon Chamber of Commerce has undertaken the integrated

development of a cluster of villages in one of the least developed zones, and expects to provide a similar programme of extension, credit, marketing, and overall village development. Business firms which could organise small holders to cultivate crops such as kenaf, cassava, castor, maize, and a wide range of other agro-industrial crops for the purpose of industrial processing or export, could under appropriate agreements provide credit schemes which fall within the pattern of the national rural credit programme. Well established voluntary movements such as the Sarvodaya, which is a rural development movement, could also enter into the credit programme and undertake the supervision and administration in selected areas.

Role of Technical Assistance

A. A. I. D. Inputs

A. I. D. has not given any aid to the Institutional Credit Programmes in Sri Lanka.

B. Other Donor Inputs

No other technical or capital assistance has been provided by any international organisation for the institutional credit programmes.

C. Effects

No comment can be made as no technical assistance has been forthcoming so far.

D. Recommendations

1. In the first instance, A. I. D. could help programmes for providing assistance, sponsor a much more comprehensive credit survey to study the credit needs of the different categories at different income levels and the dependence of the farmer on different sources of credit, institutionalised as well as non-institutionalised. Such a survey could examine in greater detail the reasons for past failures in operating the credit systems and also inquire how both institutionalised and non-institutionalised forms of credit could be integrated into a total system of resources at the farm level for the implementation of agricultural development programmes.
2. A. I. D. could also participate directly in the credit programme by channelling different aid in support of the Agricultural Credit Programme such as improved fertiliser, agro-chemicals and agricultural machinery.
3. A. I. D. could sponsor a pilot project in selected areas to implement a model Credit Scheme. Such a scheme could explain the purposes of credit to deal with both the agricultural and non-agricultural purposes and provide a comprehensive scheme on land cultivation suggested in the "Evaluation". The Project could also attempt an integration of both institutional forms of credit as well as non-institutional forms. It would be based on a much more intensive supervision of the use of credit and its recovery.

ANNEXE I
IMPORTANT DATES IN THE HISTORY
OF THE CO-OPERATIVE MOVEMENT OF SRI LANKA

Dates	Events
1909	Appointment of the Agricultural Banks Committee which recommended the enactment of the Co-operative Credit Societies Ordinance.
1911	The enactment of the Co-operative Credit Societies Ordinance.
1912	Registration of the first Co-operative Credit Society. (Wellabodapattu Co-operative Credit Society).
1913	Director of Agriculture appointed as Registrar of Co-operative Societies.
1916	Establishment of the Local Loans and Development Fund. (Local Loans and Development Fund Ordinance, No. 22 of 1916).
1921	Amendment of the Co-operative Credit Societies Ordinance to enable registration of Secondary Societies and types other than Credit Societies.
1924	The registration of the Colombo District Co-operative Union (the first secondary Society to be registered).
1926	W. K. H. Campbell assumed duties as Joint Registrar of Co-operative Societies.
1927	Registration of the first Estate Labourers' Co-operative Stores Society in Passara Group.
1929	Registration of the first supervision union (Tholpuram-Moolai). Registration of the first Co-operative Central Bank in Jaffna. Appointment of Honorary Supervisors.
1930	Establishment of a separate Co-operative Department.
1934	Registration of the Jaffna-Malayan Tobacco Co-operative Society.
1935	Mr Campbell ceases to be Registrar. Mr Calvert takes over duties as Registrar for one year.
1936	The consolidation and amendment of the Co-operative Societies Ordinance. Registration of the Tholpuram-Moolai Co-operative Hospital.

- 1937 Registration of the Northern Division Co-operative Federation.
Establishment of Supervision and Audit Fund.
- 1938 Appointment of first Ceylonese Registrar of Co-operative Societies (Mr. G. de Zoysa).
- 1942 The beginning of the "drive" to form Consumer Societies in large numbers during World War II.
Registration of the Coconut Producers' Societies Union.
Registration of the Northern Division Agricultural Producers' Co-operative Union.
- 1943 Inauguration of the School of Co-operation.
Beginning of the Co-operative Wholesale Establishment.
Co-operative Wholesale Unions began to be formed.
- 1945 Formation of a separate Department of Co-operative Development.
- 1947 Co-operative Agricultural Production and Sales Societies began to be formed.
Co-operative Provincial Unions began to be formed.
- 1949 C. W. E. is established as a Corporation by an Act of Parliament.
Establishment of a Co-operative Federal Bank.
The amalgamation of the Department of Registrar of Co-operative Societies and the Commissioner of Co-operative Development under one head, namely, Commissioner of Co-operative Development and Registrar of Co-operative Societies.
- 1950 Co-operative Congress attended by delegates from 6,000 Societies.
New scheme of government financial assistance to Fishermen's Co-operative and Industrial Co-operatives.
- 1952 Registration of Ceylon Co-operative Fish Sales Union.
Establishment of the Jaffna Training School.
- 1955 Registration of the Co-operative Federation of Ceylon.
- 1956 Creation of an Extension Division in the Co-operative Department.

- 1957 The beginning of the drive to form Multi-purpose Co-operative Societies.
- 1961 Establishment of the People's Bank.
- 1962 Establishment of the Ceylon Agricultural Producers' Union.
- 1963 Inauguration of the Extended Credit Scheme by the People's Bank.
- 1964 Formation of the Ceylon Co-operative Industries Union. Inauguration of the Rural Banks Scheme by the People's Bank.
- 1966 Registration of Ceylon Consumers' Co-operative Union.
- 1967 The inauguration of the New Agricultural Credit Scheme.
- 1968 Appointment of the Royal Commission on the Co-operative Movement.
- 1970 Reorganisation of the structure of the Co-operative Movement.

ANNEXE 2

**The Structure of the Co-operative Department
(Prior to reforms)**

Minister of Internal & External Trade

Secretary

All-Ceylon Co-operative Federation
 Commissioner of Co-operative Development and Registrar

Five Deputy Commissioners

Senior Assistant Commissioners

Northern Division
 Southern Division
 Central Division
 Western Division

Administrative, Legal and Audit, Consumer, Industries, Agriculture.

Functional

Head Office Assistant Commissioners
 Co-operative Inspectors
 Multi-purpose Co-operative Societies

Co-operative Inspectors
 Multi-purpose Co-operative Societies

Co-operative Inspectors
 Multi-purpose Co-operative Societies

Co-operative Inspectors
 Multi-purpose Co-operative Societies

Co-operative Inspectors
 Multi-purpose Co-operative Societies

ANNEXE 6

KNOW ALL MEN BY THESE PRESENTS THAT THE.....
 Multi-purpose, co-operative
 Society, Ltd. is held and firmly bound unto the Commissioner of
 Agrarian Services, his successors and assigns in the sum of Rupees
 (Rs.....) lawful
 money of Ceylon, for which payment well and truly to be made
 the said Society binds itself firmly by these Presents.

WHEREAS the said Society, registered under the provisions of
 Section 6 of "The Co-operative Societies Ordinance, No. 16 of 1936"
 having its registered address at.....
 is desirous of encouraging
 thrift, self-help and co-operation among agriculturists, artisans and
 persons of limited means:

AND WHEREAS application has been made by the said Society
 to the Commissioner of Agrarian Services in terms of the by-laws
 made under Section 46 (2) (u) of the said Ordinance for the loan
 to the said Society of the said sum of Rupees
 (Rs.....) bearing
 interest at the rate of two per centum per annum, which said Society
 binds itself to repay with interest then due by the
 day of

AND WHEREAS the Commissioner of Agrarian Services has
 paid the sum of Rupees
 (Rs.....) to the credit of the funds of the said
 Society:

NOW THE CONDITION of this obligation is such that if the
 said Society shall well and truly repay the said sum of Rupees
 (Rs.....)
 with interest due thereon in the manner provided by these Presents,
 then this obligation shall be null and void, but otherwise shall
 be and remain in full force and effect.

IN WITNESS WHEREOF the
 Multi-purpose Co-operative Society, Limited,
 hath caused its common seal to be affixed to these Presents at
 this day of
 One Thousand Nine Hundred and

The Common Seal of the
 Multi-purpose Co-operative
 Society, Limited, is hereto affixed in the
 presence of the Chairman, and the Secretary
 of the said Society, who hereby attest the
 sealing thereof.

.....
 Chairman

.....
 Secretary

Witnesses:

1.
2.

Source: Dept. of Agrarian Services.

ANNEXE 7

Time Table of Credit Operations

1st Week July	Food Production Officer gets individual farmers to apply to the Society for loans on the specified form, certifying on these forms that the amount of credit requested by the farmer is in keeping with the requirements of the production plan for that area.
2nd Week July	The Committee of the Co-operative Society examines the eligibility of the member for the loan applied for. The Co-operative Inspector test-checks 10 percent of the individual applications to ensure that they are equitably and expeditiously dealt with and conform to the conditions laid down.
3rd Week July	The Committee of the Co-operative Society meets to work out the maximum credit limit to be given to individual members and prepare a composite application to be sent to the nearest branch of the Bank with which it has its usual dealings, after the Co-operative Inspector in charge certifies that the loan applied for is within the maximum credit limit sanctioned by the Assistant Commissioner of Co-operative Development, for the particular Society.
4th Week July to September	The lending Bank processes the loan applications and decides on the maximum amount that can be given.

1st Week October The Committee of the Society meets to examine each individual application once again in the light of the actual conditions and the extents actually cultivated and makes an amended application to the lending authority supported by the necessary documents. The Co-operative Inspector, the Food Production Officer, the Divisional Officer, the Village Cultivation Officer and the Agricultural Instructor will attend this meeting.

2nd Week October The lending authority credits the Society's Bank Account with the cheque covering the loan before the end of this week.

N. B. - This time table will apply only to the Dry Zone areas where the North East Monsoon commences about October.

Annexe 8 gives how the maximum credit limit of a Society should be assessed.

ANNEXE 8
- SPECIMEN FORM -
ASSESSMENT OF A MULTI-PURPOSE CO-OPERATIVE
SOCIETY'S MAXIMUM CREDIT LIMIT

Rs. cts.

A. Funds required for the business —

- | | | |
|------------------------------------|-----|-----|
| 1. For consumer goods | ... | ... |
| 2. For cultivation | ... | ... |
| 3. For other agricultural purposes | ... | ... |
| 4. For marketing of- (a) paddy | ... | ... |
| (b) other commodities... | | |
| 5. For execution of contracts | ... | ... |
| 6. For purchase of fixed assets | ... | ... |
| 7. For rural banking purposes | ... | ... |

Total

B. Owned Capital of Society

- | | | |
|--------------------------|-----|-----|
| 1. Paid-up shares | ... | ... |
| 2. Reserves | ... | ... |
| 3. Undistributed profits | ... | ... |

Total

C. Fixed Assets

- | | | |
|-----------------------|-----|-----|
| 1. Land and Buildings | ... | ... |
| 2. Machinery | ... | ... |
| 3. Equipment | ... | ... |
| 4. Vehicles | ... | ... |

Total

D. Difference between 'B' and 'C' (B-C)

E. Maximum Credit Limit ('A'-'D')

ANNEXE 9

CROPS UNDER THE GUARANTEED PRICE SCHEME

		Rs. cts.			
		per bushel			
1.	Paddy	14.00	...	from 1.1.71 to 31.12.71	
		(per Cwt)			
2.	Maize	24.64	...	-do.-	
3.	Kurakkan, Grade I ...	15.00	...	-do.-	
	„ Grade II ...	13.00	...	-do.-	
4.	Sorghum	20.16	...	-do.-	
5.	Toor Dhall (Whole) ...	56.00	...	-do.-	
6.	Cotton, Grade I... ..	75.00	...	-do.-	
	„ Inter Grade ...	60.00	...	-do.-	
	„ Grade II ...	45.00	...	-do.-	
	„ Grade III ...	30.00	...	-do.-	
7.	Mustard	67.20	...	-do.-	
8.	Gingelly	38.00	...	-do.-	
9.	Chillies (All varieties of chillies that do not con- tain white or black pods)	392.00	...	from 12.2.71 to 31.12.71	
10.	Green Gram, Grade I ...	67.20	...	from 1.1.71 to 31.12.71	
	„ „ Grade II ...	61.60	...	-do.-	
11.	Tamarind	33.60	...	-do.-	
12.	Black Pepper	140.00	...	-do.-	
13.	Cow Pea (Arlington) ...	67.20	...	-do.-	
14.	Cow Pea	42.56	...	-do.-	
15.	Ground Nuts	49.28	...	-do.-	
16.	Turmeric	130.00	...	-do.-	
17.	Coffee, Grade I ...	224.00	...	-do.-	
	„ Grade II ...	154.00	...	-do.-	
18.	Potatoes	44.80	...	-do.-	

			Rs. cts		
19. Red onions:-					
January	...	...	48.16	...	from 1.7.71
February	...	...	43.68	...	-do-
March	...	...	35.84	...	-do.-
April	...	...	38.08	...	-do.-
May	...	...	40.32	...	-do.-
June	...	...	43.68	...	-do.-
July	...	...	35.84	...	-do.-
August	...	...	38.08	...	-do.-
September	...	...	40.32	...	-do.-
October	...	...	43.68	...	-do.-
November	...	...	48.16	...	-do.-
December	...	...	48.16	...	-do.-
20. Bombay Onions	44.80	...	from 1.1.71 to 31.12.71
21. Garlic	168.00	...	-do.-

Source: Department of Agrarian Services.

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Credit to meet the needs of peasant small hold farming came from several sources. The major part came from non-institutional sources such as professional and non-professional lenders, private traders, prosperous farmers and friends and relations.

In order to alleviate the hardships caused by the reliance on non-institutional borrowing, successive Governments of Sri Lanka have, since the 40s, been designing several credit schemes from time to time to meet the needs of the peasant farmer. These schemes had as their aim, the need to reduce the crippling dependance of the farmer on non-institutional sources.

This study seeks to survey the credit needs of farmers—principally the paddy cultivators—the schemes organised by the State to meet these needs, through the co-operative system, and the uses and benefits accruing from them.