

FACTORS CONTRIBUTING TO LOW RECOVERY RATE OF AGRICULTURAL CREDIT SCHEME

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A financial institution and the community have unbreakable interactions. Bank are supposed to provide financial facilities to the community in order to lubricate the process of economic development. With that intention, the Central Bank of Sri Lanka launched a special credit scheme with a low rate of interest to promote agricultural production of the country through the commercial banks. Nevertheless, the key problem with that credit scheme is the low recovery rate. This weakness has been observed over the years and that has caused problems to both bankers as well as the credit recipients. Therefore this study was conducted to identify reasons for the low recovery rate associated with this credit scheme and to suggest ways to make the credit scheme an effective one to the farmers and banks in particular and to the whole economy in general. Study was conducted in Dehiyaththakandiya divisional secretariat area in Ampara district as it is a leading paddy producing area of the country. A sample 100 credit recipients were interviewed during the field survey to gather relevant information. Secondary data were also used to supplement the primary data as and where necessary.

Analysis showed that reason for the low recovery rate are associated with the factors such as low income of the farmers, high cost of production of paddy, natural disasters, low levels of saving, low level of education of the farmers , high number of family members and high dependency ration of families.

Based on the findings of the study it is possible to suggest to raise the loan amount issued per a unit of land area and to launch a sound credit inspection program to improve the quality of the credit scheme. Furthermore, credit should be issued in installments and should be arrange an effective plan to recover the loan.

Key words: Low recovery rate, NCRCS scheme