

DETERMINANTS OF DEMAND FOR PADDY CULTIVATION LOANS BY FARMERS IN HOROWPOTHANA BANKING AREA (A CASE STUDY OF BANK OF CEYLON)

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Banks do provide financial facilities to communities in order to lubricate the process of economic development and to uplift living standards of rural farmers. With that intention the Central Bank of Sri Lanka launched a special credit scheme with a low interest rate through commercial banks to promote agricultural production of the country. As the determinants of farmer credit demand are not scientifically unveiled yet, knowledge on determinants of demand for cultivation loans is important for the bankers to make the credit scheme more efficient and to make it accessible to many farmers. This study attempted to investigate the determinants of demand for paddy cultivation loans issued to farmers in Horowpothana, through the Bank of Ceylon. The study area was purposely selected due to Horowpothana branch is one of the leading branches in providing cultivation loans. A sample of 60 credit recipients was interviewed during the field survey. Secondary data were used to supplement the primary data. The data were analyzed using descriptive analytical methods. Results revealed that the time lag for credit disbursement was 2 to 14 days (average 8.9 days). The average amount of credit requested was Rs. 9,600 per acre. Due to the flood condition prevailed during 2012/2013 *Maha* season, only 19% of the respondents have repaid their loans. Farmer level variables (dependency ratio, primary occupation) and credit variables (time lag for credit disbursement, distance between dwelling and the source of credit) explained household demand for credit. Social capital variables (number of members having contacts with bank, relationship with bank) influenced the amount of credit from other sources. The study suggests that monitoring and follow-up of credit recipients will increase the loan recovery and effectiveness of the credit scheme. Further, such practices would enhance rural farmers' access to formal credit sources.

Key Words: Bank, Cultivation loans, Demand, Rural farmer