

DETERMINANTS OF CREDIT DEMAND BY PADDY FARMERS IN KURUNEGALA DISTRICT

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In many developing countries rural agricultural financial systems consists of informal and formal sectors. The formal financial sector in Sri Lanka constitutes a system including commercial banks, development banks, rural banks, credit societies, savings banks, finance companies, insurance companies, and contractual savings institutions. The informal financial sector is an un-organized sector consists of individuals such as money lenders, relatives, friends, neighbourhood, landlords, traders and group of individuals that operates mainly in the rural setting. Informal financial systems are mainly distributed in rural areas with high agricultural population in Sri Lanka. This study was aimed to examine empirically the present credit demand by paddy farmers and factors influencing paddy farmers to demand informal and formal credit with a sample of 61 paddy farmers in Kurunegala District. Data were analyzed using both descriptive and inferential statistics tools such as percentages and Nominal Logistic Regression technique, respectively. The results suggested that majority (85%) of the farmers prefers to go for credit facilities as an aid for cultivation and out of them, more than 75% demand informal sources as their main source of credit. Relatives and friends were identified as the most important source of informal credit while pawning through financial institutes is the main formal source of credit. Almost all the farmers had negative perception towards the formal credit sources due to involvement of lot of paper work, time consumption and lack of efficiency of the process. Out of seven variables tested (i.e. age, family size, level of education, cost of production, income from paddy cultivation, income from other sources and the total value of assets), age and income from other sources had significant but negative influence on farmers to demand informal credit with respect to the category of farmers who didn't demand credit. In contrast, neither variable had significant influences on farmers to demand formal credit. Farmer awareness creation was identified as one of the key elements in increasing formal credit demand. As a remedy, financial institutes should adopt new promotion schemes and need to conduct adversary programs to communicate available credit schemes to attract farmers' demand towards formal credit and financial institutes.

Keywords: Formal credit, Informal credit, Microfinance, Paddy farmers