

# Evaluation of Kapruka Ayojana Credit Scheme Implemented by Coconut Cultivation Board in Welpalla Coconut Development Division in Kurunegala District

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## ABSTRACT

A study was carried out to find the effect of the Kapruka Ayojana Credit scheme on the income, provided labour employment and land usage of the loan borrower. Welpalla Coconut Development Officer Range was selected as the area for the study. Present value of the income was calculated at 8% interest rate. Paired t-test was used for the analysis.

Results showed that there is an effect of the credit scheme on the income, labour employment and land usage of the loan borrower. Further it revealed that this credit scheme helps to obtain additional income from the coconut land. The requirement of a marketing channel that enhances beneficial effect from the credit scheme was highlighted in the study.

**KEYWORDS:** Income, Present Value, Labour Employment, Land Usage

## INTRODUCTION

The coconut palm (*Cocos nucifera*) is popularly known as the tree of life as it gives invaluable uses for the man. There is a wide diversity among coconut products and its by-products. However it is widely used as a food source. It provides 22 percent of the per capita calorie intake for the diet of Asian people. Coconut is widely grown in Philippines, India, Sri Lanka, Indonesia, Fiji Islands etc.

Sri Lanka, which is the 4<sup>th</sup> largest coconut producing country in the world accounts for approximately 440,000ha of land (Liyanage 1999). The coconut sector accounts for about 2 percent to Gross Domestic Product (GDP) and about 3.4 percent to foreign exchange earnings annually. Around 5 percent out of the total workforce has been making their living based on this sector. National annual coconut production in 2003 was 2562mn nuts (central bank 2003). This is not a value that is to be satisfied under the considerations of increasing demand for coconut and the reduced farmers' income. But the cultivable land is limited and it is rather difficult to increase the extent of cultivation. Therefore uplifting the productivity of existing coconut lands is wise worthy. Current productivity of coconut is 7000nuts/ha/yr. This can be increased up to 10000nuts/ha/yr (Liyanage 1999).

Coconut cultivation is a less intensive land use system. Nature of the tree provides extensive space for intercropping, livestock etc. Productivity of a coconut land can be increased by practicing proper cultural practices like irrigation, fertilizer application, weeding etc. But most of the smallholders acquire a low income. They lack enough resources for a systematic cultivation. Hence the smallholders are in need of a credit facility.

A scheme of credit for coconut fertilizer was introduced by the central bank in 1979. During the period of 1979 to 1989, Rs 85.5mn of credit had been disbursed under the scheme (Sandarathna N 1998).

Coconut is a perennial crop and farmers have to wait at least 5 to 10 years to get proper yield. Therefore farmers hesitate to obtain loans for the coconut cultivations. Owing to the above reason a low interest loan scheme, which is called Kapruka Ayojana Credit Scheme, has been introduced by the Coconut Cultivation Board (CCB) in 1998. This is a concessionary loan scheme for the development of coconut cultivation, having the objective of increasing the cultivated land extend and the productivity of the cultivated land. CCB wish to develop 23000ac of Coconut land under this scheme.

"Kapruka credit scheme" provides guidance and financial assistance towards realization of higher productivity and steady income by making sure optimum utilization of available resources in the land, through scientifically developed individual farming plans. This loan scheme is implemented in 15-coconut cultivation regions. Commercial banks, State banks and Rural Development banks also take part in this scheme. Several types of loan categories are being found in the scheme. They are, New planting coconut with intercropping, Replanting coconut with intercropping, Intercropping with coconut plantation, Rehabilitation of coconut plantation, Coconut monocropping, Irrigation for coconut, Nurseries, farm equipments and Special projects.

Kapruka Ayojana is 5year loan scheme. Table 1 shows progress of the loan scheme from programme updated to oct/2004.

The unique characteristics of the scheme are. assistance given by the CCB officers for the preparation of development plans, initial one year grace period, repayment in 5 year, reimbursements of interest and concessionary rates of interest. However the repayment period will be changed according to the farm plan. Loan borrowers have to pay interest for the loan during the grace period.

**Table 1- Progress of the Credit Scheme:**

Year	Released Amt Rs Mn	Developed extent ac
1998	7.99	493.04
1999	50.50	3578.90
2000	63.36	3135
2001	42.49	2122
2002	46.87	1727
2003	58.13	2084
2004	58.04	1824

Source: Kapruka Ayojana Progress Report (2004)

The highest advantage of this loan is reimbursement of the interest. This is paid by the CCB to the loan borrower. 100 percent of the 1<sup>st</sup> year interest and 50 percent of the interest of the rest of the years will be repaid by the CCB to the loan borrowers. To obtain this, farmers should fulfill the activities in the farm plan. The Kapruka National Coordination Committee decides the interest rate for those loans every year. Some farmers were very successful under this scheme. They have obtained loans and are able to increase both land extend and land productivity as well. They have obtained highest ever income from their lands after obtaining loan under this scheme. However there are some shortcomings. Some farmers have not been able to obtain this credit due to rigid rules and regulations of the banks, collateral problems etc or due to the fact that some farmers did not follow the instruction of the CCB. Therefore CCB had not released rest of the instalments of the loan granted.

This study emphasizes on analyzing the effect of the Kapruka Ayojana Credit scheme on the income, labour employment and land usage of the loan borrower.

### METHODOLOGY

The study was carried out as a survey. It was focused on the analysis of the effect of Kapruka Ayojana Credit Scheme for the Welpalla Coconut Development Officer range in Kurunegala district. All the sixty-four coconut growers in the so-called Coconut Development Officer range who borrowed loans from Kapruka Ayojana Credit scheme were selected as the respondents. The lists of the respondents were drawn from the Coconut Cultivation Board. A pre-tested, semi structured questionnaire was used to gather the primary data.

The income of the farmers, before and after the credit scheme was converted into single present value. The formula used for calculating was,

$$PV = \frac{FV}{(1+r)^n}$$

PV=present value

FV=future value

r=interest rate

n=time

Paired t-test was used to analyze the effect of the loan scheme on the farmers' income, labour employment and the land usage. 8% discount rate was used to calculate the present value.

### RESULTS AND DISCUSSION

**Table 2- Probability Values and Mean scores:**

Attribute	pr value	Mean scores	
		Before	After
Income	0.023	5836.6	7418.7
Labour			
Employment	0.0001	1.078	3.297
Land Usage	0.0001	2.117	3.539

Prob value<0.05-Significantly different

According to the probability value of the paired t-test analysis (Table 2), it was identified that farmer's income was a significant factor. Furthermore the mean separation analysis and the change of income (Table 3) revealed that farmers' income has been positively affected by the credit scheme. The authorities promoted intercropping of coconut cultivation in addition to rehabilitation. Consequently the loan borrowers gained an additional income from the crops like pineapple, banana, and ginger. The rehabilitation practices such as application of fertilizer, locating fences and using trenches improved the soil condition and reduced the damages. Refunding of interest for the loan burrowers was another factor that increased their income, by reducing financial expenditure. The CCB undertook the responsibility to repay 100 percent of the interest in the first year and a 50 percent of the respective years. The coconut growers were also compelled to maintain a bank account as the interest repayments were directly credited to those bank accounts. Consequently farmers were encouraged to deposit their money in the bank and have an additional income as interest.

**Table 3- Change of the Income Before and After the Scheme (Percentage Values):**

Income Level	Before	After
0-5000	58	48
5000-10000	23	28
10000-15000	10	13
15000-20000	9	11
Total	100	100

According to the t-test, effect of credit scheme for the labour employment was significant. Labour employment has also been increased after the project according to the mean separation analysis. The rehabilitation practices and the initiation of

intercropping increased the demand for labour. As a result, a shortage of labour was generated. Increased demand for labour was a major reason for the increment of labour employment after the credit scheme. At the same time the increased income as a result of the credit scheme encouraged the farmers to extend their land area of cultivation. Extension of land area was another reason for the acceleration of labour employment after the implementation of the credit scheme. Some of the growers tested new machineries and invested in new irrigation (drip irrigation) systems for their cultivations. A demand was created for trained and untrained labourer as well. The Table 4 makes a contrast of the increased labour after the project and the same before the implementation.

**Table 4- Change of the Labour Employment Before and After the Scheme (Percentage Values):**

Employed Labour	Before	After
0-2	67	8
2-4	31	50
4-6	2	42
Total	100	100

Further the analysis revealed that, effect of the credit scheme for the land use of the loan borrowers was significant. Mean separation and the change of land use (Table 5) have shown a positive effect of the land usage by the loan scheme. The increased farm income has resulted an increment in the cultivating land area in return. A higher borrowing was advantageous in the first year in terms of the repayments by the CCB. At the same time the coconut growers who purchased new machineries and irrigation projects, had expanded the land area with the intention of enjoying the economies of scale.

**Table 5- Change of the Land Usage Before and After the Scheme(Percentage Values):**

Land use ac	Before	After
0-2	52	27
2-4	30	35
4-6	13	23
6-8	5	15
Total	100	100

## CONCLUSIONS

Kapruka Ayojana credit scheme has been successfully operating in the Welpalla Coconut Development Officer range for the last five years. It is positively affecting the increment of the income, productivity of the coconut land, land usage and the labour employment of the farmers who borrowed loan in the Welpalla region. The Kapruka Ayojana Credit scheme is found to be beneficial for the coconut smallholders. However the loan borrowers have not been able to get the maximum benefit from the loan scheme due to the absence of proper marketing channels.

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