

Challenges of Microfinance Accessibility by Paddy Farmers: The Case of Anuradhapura District

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ABSTRACT

Inadequate access to credits by the farmers has been identified as one of the contributing factors to the paddy cultivation, value addition and distribution of the country. Microfinance is a key policy strategy to solve the financial difficulties that affect direct to the paddy production. The purpose of this study was to identify and assess the problems face by the paddy farmers in using credit facilities for their production, processing and selling activities. Primary data were collected through a survey from a sample of 40 paddy farmers and 10 government and non government (NGO) micro finance institutions in Anuradhapura District. Potential problems faced by the lenders and borrowers were analyzed. The constraints which paddy farmers and their perception towards those constraints were not vary with respect to their age group, education, farming experience and gender. Higher interest rates, collateral requirements and strict repayment structures of the loans, high competition and obtaining loans from different financial institutions by paddy farmers simultaneously were the constraints that faced by paddy farmers and microfinance institutions respectively. Government and non government authorities have to make policies that enable in order to remove the constraints so that the accessibility to credit facilities of paddy farmers paddy farmers have to access to institutional finance as well as for the barrier face by the financial institution sector.

KEYWORDS: Financial services, Microfinance, Microfinance institutions, Paddy farmers

INTRODUCTION

Sri Lanka has an agricultural based economy and agriculture sector is the backbone of the country's economy. Agriculture sector plays a significant role by contributing 12.1% to the Gross Domestic Production (GDP) and generates 30% of the country's employment (Central Bank Annual Report, 2011). More than 70% of the total population in Sri Lanka lives in rural areas while they depend on agriculture as their livelihoods. Paddy sector of Sri Lanka has a significant concern as it is the staple food. Rice has a contribution of 1.8% to the total GDP and per capita consumption is about 100 kg per annum (Central Bank Annual Report, 2011).

Many farmers who involved in paddy cultivation are suffering from poverty and cultivating with subsidies from government or financial support from various government and NGO financial institutes. Incentives and subsidies from government or loans at lower interest rate have been identified as better helping hand to break the poverty cycle of poor paddy farmers (Bandara *et al.*, 2007). In 2011, 4, 298 Rs. million has been distributed as short term agricultural credit and loan term agricultural credit to the paddy farmers (Central Bank Annual Report, 2011).

The cost of production of agricultural commodities has been dramatically increased in Sri Lanka due to the inflation within the

country. Financial resources or capital plays an important role as it is the major problem in paddy sector. There are two parts in the rural financial sector which are known as formal and informal rural financial sources. The most important formal sources are; banks, savings, loan associations and insurance companies. Similarly, informal financial sources include; money lenders, boutique keepers, or shops, pawn brokers, land lords, and richer individuals etc. Informal financial sources act in the paddy financial market either professional or in a personal manner. Only 10% of credit requirement of farmers is fulfilled by formal financial market while informal financial market contributes to the rest (Sampath and Sanderathne, 2001).

Microfinance (MF) refers to small scale financial services, primarily credit and savings to the economic active low income clients by financial institutions in order to provide goods and services. Microfinance institutions are local communities that offer financial services in the form of savings and credit (Renuka and Athauda, 2010). From these institutions loans are given at concessional terms and the farmer is charged the interest rates for the entire period of the loan.

Paddy farmers usually require finance for the land preparation, purchasing of seeds and planting materials, agro chemicals, fertilizer,

payments of labor, transport, storage and as well as for their day to day expenses. At present, field activities are mechanized. Therefore, machines (i.e. tractors, harvesters) are essential. The main problem faced by the paddy farmers is obtaining profits from their cultivations, as they face difficulties in selling their harvest at a fair market price.

The broad aim of this study is to investigate what are the factors mainly affect to credit inaccessibility of paddy farmers for cultivation, value addition and distribution under prevailing fiscal policies of Sri Lanka. The study was carried out with the specific objectives of assessing the main constraints for microfinance accessibility from the standpoints of both borrowers and lenders and to evaluate their perceptions.

METHODOLOGY

Study Area and Data Collection

The primary data were collected by means of a survey, to find out the problems that the paddy farmers face with respect to access their financial facilities. Considering the fact that the highest paddy production and high mobilization of micro finance institutions, the sample was selected in Anuradhapura District.

Data were collected from a sample of 40 paddy farmers selected through random sampling technique. And 10 microfinance institutions from both government and commercial sector were also selected for the study. The data were collected through face-to-face interviews using a pre-tested questionnaire. Rankings of the constraints were obtained and then the mean rankings were calculated for the constraints that the paddy farmers perceived for accessibility to finance of financial institutions. In addition, the Microfinance officers in institutions from where those paddy farmers obtained their credit facilities were also asked to indicate their rankings on the same set of constraints. With that the mean rankings (MR) were calculated and compared.

The considered constraints are as follows:

Governance and Management

1. Vague rules, conditions and regulations
2. Not fully aware of the benefits
3. Rigid public relations
4. Too complex coordination
5. Complex documentation

Quality

6. Complex loan procedure
7. Rigid collateral requirements
8. Loan processing time is too long
9. Loan amount is not sufficient to fulfil the need
10. High interest rate
11. Re-payment system is too difficult for farmer
12. Compared to informal credits, less accessibility
13. No sufficient funds to lend for all qualifying applicants

Customer Care and Support Services

14. No system to address the issues of lacking farming knowledge
15. Less leasing facilities
16. Less flexibility for loan repayment
17. No case-by-case approach
18. No guidance for loan usage

Data Analysis

The data were analyzed using both descriptive and inferential statistics. The mean ranks of the constraints were calculated from the ranks given by the farmers and MF officers separately. And, these mean ranks were plotted against several socio-demographic factors of the farmers to identify how each of these socio-demographic groups perceives the severity of the constraints. Finally, the mean ranks provided by two groups were subjected to a Student-t-test to test whether there is any difference between the perceiving of constraints by paddy farmers and MF officers.

Probability value (p) for each value of t is calculated.

$$t = \frac{|x_1 - x_2|}{\sqrt{(s_1^2/n_1 + s_2^2/n_2)}}$$

x_1, x_2 = Mean values of both populations

s_1, s_2 = Variance of both populations

n_1, n_2 = Sample size of each population

RESULTS AND DISCUSSION

Descriptive Statistics

Both male and female respondents stated that vague rules conditions and regulations are the main constraints when obtaining loans from government institutions. Rigid collateral requirement is the major issue under the quality of the product. No system to address the issues of lack of farming knowledge is identified under customer care and support services (Figure 1).

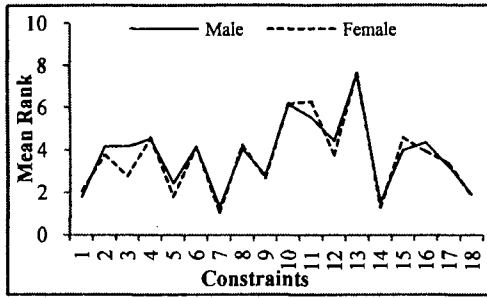


Figure 1. MR of the constraints with reference to gender of the respondents (Government sector)

In obtaining microfinance loans from non government institutions, both male and female respondents are mentioned high interest rate is the major issue. Less flexibility in loan repayment is the next problem they faced when access to the formal credit facilities (Figure 2).

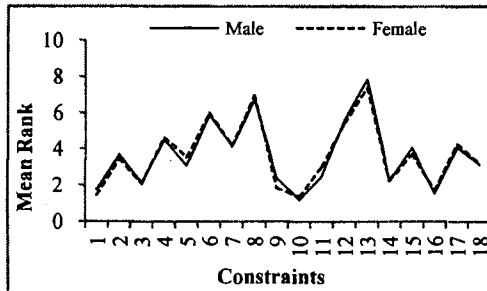


Figure 2. MR of the constraints with reference to gender of the respondents (NGO sector)

Farmers of all education levels are stated that major three constraints to access the microfinance are; vague rules and conditions, rigid collateral requirements and no system to address the issues of lacking farming knowledge when generating microfinance facilities from government microfinance institutions (Figure 3).

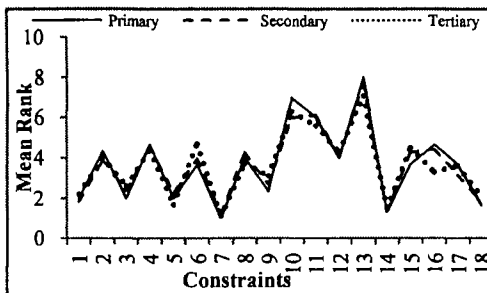


Figure 3. MR of the constraints with reference to educational level of the respondents (Government sector)

All the farmers in the sample are stated that high interest rate and less flexibility for loan repayment system are the main constraints when granting microfinance loans from non government institutions (Figure 4).

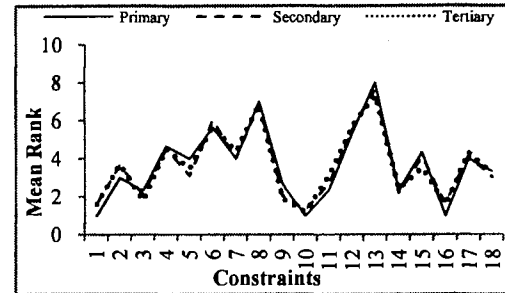


Figure 4. Education level & MR of the constraints of the respondents (NGO sector)

All the farmers in the sample were divided into four groups based on the farming experience and the mean rank of each constraint were calculated. Farmers are stated that rigid collateral requirement and the no system to address the issues of lacking farming knowledge are the major issues when obtaining loans from the government institutions (Figure 5).

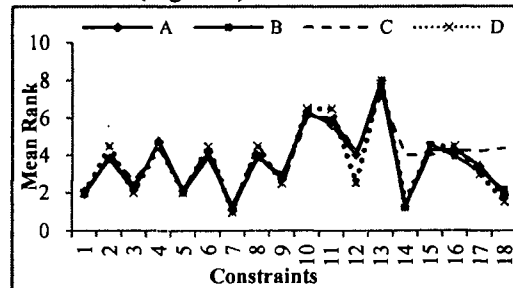


Figure 5. MR of the constraints with reference to farming experience of the respondent (Government sector)

The farmers, who obtain microfinance loans from the non government institutions, face three major problems; vague rules and conditions, high interest rate and less flexibility for loan repayment.

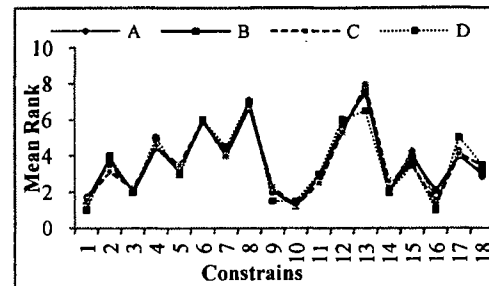


Figure 6. MR of the constraints with reference to farming experience of the respondents (NGO sector)

A, B, C, and D are the groups that indicate the farming experience, which are 1-10 years, 11-20 years, 21-30 years and above 31 years respectively. The graph shows that the perception of farmers is not relatively different with the farming experience (Figure 6).

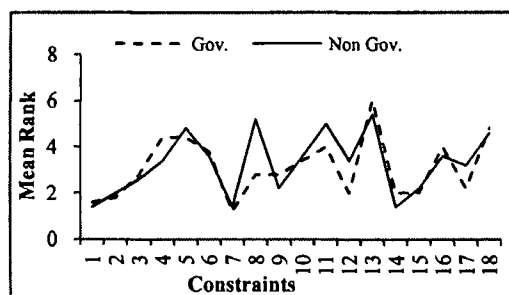


Figure 7. MR of the constraint with reference to the government and non government microfinance institutions

Vague rules and conditions, rigid collateral requirements and less accessibility compared to informal credit are the main constraints stated by the government institutes. The non government microfinance institutes were also agreed on the same constraints (Figure 7).

Outcome of Student t test

Student t test was employed to find out the difference in mean ranks provided by the farmers and the microfinance institutes (Table 1).

Both farmers and microfinance institutes have identified the vague rules, conditions and regulations, rigid public relations are the two major problems in this sector. Under the quality of the product category; complex loan procedure, insufficient loan amount to fulfill the farmers need and difficulties in repayment system for farmers are mentioned by both lenders and borrowers.

Customer care and support service is a third category consider in this study. The major problem identified by the both the parties is no system to address the issues of lack of farming knowledge. All other considered constraints are significantly different according to the perception of paddy farmers and microfinance institutions.

According to the Table 1 both paddy farmers and the institutions perceived that the vague rules and conditions, insufficient loan amount to fulfill the need and no system to address the issues are the constraints of obtaining loan schemes in non government institutions.

Table 1. The outcomes of Student t test

Constraints	t values	
	Government	Non-Government
Governance and Management		
Vague rules, conditions and regulations	1.63	0.27
Not fully aware of the benefits	6.54*	4.92*
Rigid public relations	-1.04	2.40*
Too complex coordination	4.06*	1.65
Complex documentation	-9.43*	-4.76*
Quality		
Complex loan procedure	1.23	7.14*
Rigid collateral requirements	-4.05*	16.68*
Loan processing time is too long	0.13	2.57*
Loan amount is not sufficient to fulfil the need	0.74	-1.73
High interest rate	5.19*	-4.79*
Re-payment system is too difficult for farmer	0.97	11.43*
Compared to informal credits, less accessibility	2.27*	4.83*
No sufficient funds to lend for all qualifying applicants	3.19*	3.20*
Customer care and support services		
No system to address the issues of lacking farming knowledge	0.20	1.88
Less leasing facilities	7.50*	5.55*
Less flexibility for loan repayment	2.25*	6.14*
No case-by-case approach	2.97*	5.13*
No guidance for loan usage	-13.2*	5.18*

Note: * Significant at 95% Confidence

CONCLUSIONS AND POLICY

IMPLICATIONS

Lack of availability of credit facilities is one of the main problems that the majority of the paddy farmers face in Sri Lanka. The constraints which paddy farmers face and their perception towards those constraints were not different with respect to their age group, education, farming experience and gender.

Although, the paddy sector has a considerable contribution towards the country's GDP, the constraints such as higher interest rates, collateral requirements and strict repayment structures of the loans make farmers uncomfortable in obtaining the loans. Selection of the loan amount and the collateral requirement by the microfinance institute was also considered as a constraint. These constraints are mentioned by the paddy farmers as they affect them to access institutional finance. High competition and obtaining loans from different financial institutions by paddy farmers within the same period of time were mentioned mostly by the MF officers in the respective institutions.

Therefore government and non government authorities should be flexible in order to remove the constraints that paddy farmers have to access to institutional finance. It is essential to remove the barriers for the accessibility to finance by the authorities through interfering to revise the existing lending policies of financial institutions with the aim of recovering credit through profit making operations of paddy farmers.

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