F13-SLAAS-Annual Sessions (1981):

THE EFFECT OF INSTITUTIONAL CREDIT ARRANGEMENTS ON INCOME INEQUALITY IN THE PEASANT ECONOMY

The twin objectives of "rural credit packages" of the state owned commercial banks were to serve as catalysts to stimulate and promote the potential in the rural areas. The Peoples Bank since 1967 and the Bank of Ceylon since 1973 were actively involved in promoting rural credit with the auspices of assistance provided by the Central Bank of Sri Lanka. It was expected that rural credit would increase production and income of the peasantry and relieve them of their debt burden. The alleviation of the increasing income gap in the rural areas was an important implicit objective of these "packages". Egalitarian "credit packages" with relaxed conditions were made available to achieve this end. These packages recorded an annual average growth rate of 88% in terms of credit disbursement from 1967-1978. It is now opportune to examine the effectiveness of these arrangements.

A comparative study was designed and carried out in two selected villages in the Matale District, using questionnaire survey techniques. The information was supplemented with published data from other available sources.

The analysis revealed that the benefits derived from these credit schemes have been far below expectation in terms of the volume of credit disbursed their utilization, and recovery levels. Furthermore, it was found that the dominance of non-institutional arrangements continued while credit distribution by institutional sources showed trends of polarization favouring the elitist groups. The presence of favoritism towards certain groups with whom the bank staff had developed networks in the spheres of handling and scheduling of loan applications, and decisions on credit criteria was another drawback that surfaced

The overall effects of this state of affairs have been (a) the limited accessibility towards institutional arrangements by low income groups , and (b) the availability of new avenues of income to the elitist segments which further widened the income disparities in the peasant community.
The intensity of the operation of these factors was found to vary within the 2 selected villages. This variability was partially due to factors like the socio-economic conditions of the villages and the inherent operational and supervisional drawbacks of the institutional credit arrangements. The ultimate result of these forces was a widening of income differences in the village economy, which was contrary to the objectives for which these arrangements were made.

References

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