

# Influence of Conventional Banking Facilities among Paddy Farming Household in Ampara District of Sri Lanka

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## Introduction

Ampara district is located in the coastal dry zone in Sri Lanka and it is 4415.0 Sq. kilometres in extent. The main source of revenue of the people in the district is farming, especially paddy cultivation. The total cultivable area under paddy is 55,000 hectares and the average production is 250,000 metric tons in a season (Planning Secretariat, Ampara, 2010). In general, income of paddy farmers is uncertainty, they are intent to low income and higher expenditure finally it leads them into higher indebtedness and poverty. According to Todaro (1997) small scale farming, non-commercial, traditional agricultural practices lead to low productivity, affecting levels of income and saving of farmers especially smaller ones and pushing them in vicious circle of poverty. Especially Sri Lankan paddy farmers facing heaps of problems after liberalization circumstances because various types of import rice from Pakistan, India and other countries are available at the local market even domestic paddy production have achieved self sufficiency level. Consequently excess supply has caused to determine low level of price at the open market. Thus the sustainability of paddy farming and paddy farmers is at a critical juncture with a major threat of the deepening financial crisis. Most of the farmers are getting into the vicious circle of indebtedness and are unable to meet their household expenditures with the meager accrual of income from paddy cultivation alone. Most of the paddy farmers are gradually being trapped into mounting debt to high interest as they have to constantly depend on money lenders (Ahamed Lebbe, 2010). The credit scheme for paddy farmers and supportive institutional framework involving rural banking access, farm gate price of paddy and crop insurance all contributed positively to the successful operation of the credit scheme for rice farmers in Sri Lanka during 1980-2001 (Wickramanyake, 2004).

Ampara District has a population of 705,002 in 2010. Sinhala, Muslim and Tamils are the 3 major communities living in the district and the ethnic ratio is 43.21% Muslim, 37.48% Sinhala, 19.09% Tamils and 0.22% others (Planning Secretariat, Ampara, 2010).

Therefore it is important to note that majority of the people are Muslim in this district. Despite Ampara district has 20 divisional secretariats, some Divisional Secretariats especially coastal regions such as Sammanthurai, Nintavur, Akkaraippattu, Addalaichenai, Kalmunai and Pottuvil are identified Muslims secretariat divisions because absolutely or more than 90 per cent of people living in these areas are Muslims. Two fifth (39%) of total people in Ampara district are living in these Muslims DS divisions. Further, These DS divisions consist of 49 per cent or around half of total paddy land of this district. Furthermore, 90 per cent of total people of these divisions are Muslims and their main occupation is paddy cultivation. Meanwhile, more than two third of paddy farmers in these area are seen commercial farmers. Hence, they are forced to face low profit and indebtedness problems because of low price at the open market. In the meantime, these farmers are compelled to seek loan from existing facilities of formal or informal sectors in these areas. It is understood that every village contains various state and private conventional bank branches. However, money lenders are also very active in these areas. Beyond that every DS division consist of formal and informal Islamic banking systems too. Particularly, Sammanthurai, Nintavur, Akkaraippattu and Kalmunai Muslims DS divisions have AMANA bank branches. And also every village has informal Islamic banking system which is maintained by village people. Even so, involvement in Islamic financial system of these Muslim people in these areas particularly Muslim paddy framers is quite poor when compare to conventional banking system.

In this background, this study is an attempt to identify the influence of Conventional Banking facilities among Paddy Farming Household in Sammanthurai Divisional Secretariat area of Ampara District in Sri Lanka.

**Key words:** Riba, conventional banking system, Al-Mashraful Islamiu, Amana Bank.

## Methodology

This is the case study based on primary data and the data related to the year 2008-2009 (2008 *Yala* and 2008-2009 *Maha*). Two stage stratified sampling procedures were adopted to select 160 paddy farmer households from four types of paddy cultivation groups (Labourers, Small, Medium and Large farmers). Collection of data was done by personal interviews on the basis of pre-determined and structured interview schedule.

## Results and Discussions

Islam completely forbids interest or usury thus a Muslim whoever is not allowed to receive or pay or involving other activities (ex. Witness) in regard to interest. In this background, the survey finding shows that conventional bank branches such as specially people's bank, bank of Ceylon and also some private bank branches such as HNB, Seylan bank are seen in the study area. However, one Amana bank branch (Islamic bank) and Al- Mashraful Islamiu (Interest free credit fund) handled by Sammanthurai Majlish Ashoora are also only available Islamic banking facilities in the study area. Except the above, influence of traditional money lenders in the informal credit sector are higher in the study area. During the study period all categories of paddy framers received 41.3 per cent loan from conventional banking facilities followed by private money lenders 33.7 per cent. Contribution of relatives and friends, traders, Employers and middleman and millers are 7.5, 7.1, 1.7 and 1.2 per cent, respectively. However, it is to be understood that all farmers received only 2.1 per cent loan from two Islamic bank branches in the study area during the study period. Despite all activities in regard to interest are prohibited in the Islamic Sharia (law), 95 per cent of the Muslim people in the study area uphold their all financial dealing with State and private banks from formal sources and also money lenders from informal basis. In Surah al-Baqarah, verses 278-279 of the Quran, He says: "O you who believe! Be afraid of Allah and give up what remains (due to you) from riba (usury) (from now onward), if you are (really) believers. And if you do not do it, then take a notice of war from Allah and His Messenger . . ." Hence, interest is completely prohibited in Islam and Allah has declared war on those who consume interest. Therefore, it is a duty that all Muslims should be aware of the seriousness of interest and other forms of riba, by referring back to Allah and his messenger, Muhammad (may Allah's peace and blessings be upon him).

Despite all Muslim people in the study area are seen to follow Islamic law and order, their financial difficulties and lack of Islamic financial facilities in the study area push them into conventional banking system. Keeping in view the result of this study, the following suggestions are extended for the consideration of

planners and policy makers to increase the involvement of the people into Islamic financial system.

- Clear explanation regarding sin of interest in Islamic view should be given among the people of the study area.
- Capacity of Islamic bank branches are inadequacy in comparing with population of study area. Hence, branches and facilities of these banks must be increased.
- Peoples' banks and Bank of Ceylon consist of various credit facilities such as agricultural loan, industrial loan ...etc. As a result, existing Islamic branches in this area should introduce the above loan facilities.
- Attractive profit share to the depositors should be given in time.
- ATM facilities were introduced by conventional banking system. But, this system is not available in Islamic bank branches in the study area thus this limitation should be eliminated.
- Pawning facilities should be extended in Islamic banks.

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