

Rural businesses get step-motherly treatment

While the Central Bank tried its best to play the fairy godmother to rural entrepreneurs, especially of the conflict affected North and East, banks continue to behave like the dreaded stepmother.

Since the end of the conflict more than two years ago the Central Bank has been pushing the banking sector to enter the North and East, encouraging them to open up more branches to serve the economic and development needs of the people, but businesses in these areas and also of other rural provinces say banks are extremely risk averse.

"Discussions with regional entrepreneurs, particularly in the North, North-Central, Eastern and Uva



provinces note that bank branches in their regions appear to be extremely risk averse, often despite borrowers being able to provide the requisite collateral," The Institute of Policy Studies noted in its latest flagship publication

'Sri Lanka: State of the Economy 2011 – Post Conflict Growth: Making it Inclusive.

"Many entrepreneurs noted that even when loans are approved, they are often as low as Rs. 100,000, grossly insufficient for local businesses wishing to expand or undertake new ventures; for instance a small scale rice farmer looking to invest in agromachinery like combine harvesters and mechanised threshing equipment."

Apart from this, poor financial literacy is also proving to be an obstacle to accessing finance.

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"It is observed that rural entrepreneurs are often unable to wade through the complicated formulas and calculations for loan products, find it difficult to understand the nuanced small print, and are not sufficiently bank-savvy in order to get a good deal," the IPS noted.

The thin tank goes on to propose a few suggestions that could help rectify these problems.

Improving the capacity of rural business owners to produce credible and attractive business plans; expanding the provision of business development services to assist them in this exercise; and, educating local branch managers on evaluating SME business plans in con-

flict affected areas with a different mindset to regular loan applications.

In the second half of 2009, 49 new bank branches were opened island wide. In 2010, a total of 121 new bank branches and service centres opened up in the North and East alone.

The total outstanding stock of credit to the private sector grew 34.1 percent year-on-year in August to Rs. 1.77 trillion. Credit stock issued by domestic banks grew 35.9 percent to Rs. 1.59 trillion while foreign banks accounted for Rs. 181.8 billion, up 19.7 percent from a year earlier. Some of the new loans generated from January to August, totalling Rs. 260 billion, has fuelled import demand.