

**PRESENT STATUS OF RURAL INFORMAL CREDIT MARKET
REDEEMALIYADDA DS DIVISION IN UVA PROVINCE**

H.M.B. Parakrama¹, K.S. Karunagoda², Y.M. Wickramasinghe¹

¹*Department of Agricultural Systems, Faculty of Agriculture, Rajarata University of Sri Lanka, Anuradhapura, Sri Lanka.*

²*Socio Economics and Planning Centre, Department of Agriculture, Peradeniya, Sri Lanka.*

The informal sector in the rural financial market plays a significant role in many developing countries including Sri Lanka. Successive governments have been making efforts to minimize its relative importance, but met with little success.

The study was undertaken Redeemaliyadda DS division in Badulla district, with the objective of identifying the range of informal credit arrangements in rural area and evaluating the special characteristic features. Data was collected from a randomly selected sample of 200 households by using a questionnaire.

Results showed that the rural informal market consists of a wide range of sources and arrangements, which includes landlord, boutique keepers, shop keepers and marketing credit. Access to formal sources was high in the rich category whereas access to informal sources was high in poor and the poorest category. Households mainly depended on informal (40%), formal (11.5%) and both informal and formal (35.5%) sources for credit. The main sources of informal credit are landlords (44%), boutique keepers (29%) and shops (27%). Household access to credit from landlords was higher than the others. Timely provision of loans and easy accessibility were the main motivation to obtain credit from informal sources.

Probit analysis identified the socio economic factors influencing the dependency on informal credit sources. Monthly income, income from agriculture, wealth index, land holding size, land ownership, education, interest rate and life objective were selected as determining variables. The poorest group showed significant relationship with life objective while the poor showed with the monthly income, interest rate and life objective. Moderately poor group did not show any relationship with the selected variables while the rich showed monthly income and interest rate as significant variables.

Key words: Informal credit, Formal credit, Financial market, Rural household, Probit analysis