Mapping and Manipulation of Traders in Sri Lanka

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Much of the debate on financial intermediaries has focused on the institutional aspects of the formal sector. For example, the debate on why Specialized Farm Credit Institutions (SFCIs) have failed has focused on administrative problems. Some of the reasons for these failures can be understood by comparing how SFCIs function in comparison with informal sector intermediaries, such as traders (Southwold-Llewellyn 1987, 1991). And indeed, a number of recent policy interventions to stimulate the provision of credit have tried to institutionalize features of informal sector finance found in ROSCAs and in credit from traders (Adams and Fitchett 1992). A major flaw in an institutional approach, as in much of policy intervention and social engineering in general, is the assumption that there is a simple cause-effect relationship between a limited set of variables. It seems to follow from this that, if one variable is changed, there will be a predictable change in the others.

The purpose of this chapter is to explore some of the multiple contextual frameworks of financial intermediaries in Sri Lanka, within the specific context of a set of government interventions during the early 1970s. These will help to explain the changing credit relations of borrowers and lenders in a small rural commercial center. The exploration of these specific multiple contextual frameworks will throw light on the range of issues that should be taken into account if effective credit interventions are to be implemented.

The Context of Location

The focus of this case study is Polgama (a pseudonym), a village 10 kilometers north of Kurunegala, Sri Lanka, where fieldwork was done for 15 months during 1974-1975. Additional material was collected in nine surrounding villages. Polgama and its adjacent village of Gonnawa (pseudonym) form a center for commerce and services in the vicinity. Visually, they are one center; and are thus referred to as Polgama-Gonnawa. There was a sub-post office, a railway station, two bus services to Kurunegala, a secondary school, a government dispensary plus an Ayurvedic physician and his dispensary, two cooperative stores, a rural bank, a weekly periodic market, and 66 shops of which 42 were shops of traders. Since World War II people have immigrated to this area increasingly, because of the good facilities and relatively cheap land. Consequently, Polgama-Gonnawa has become the main trading area for the agriculturally based interior villages.

Although this area lies just outside the “Coconut Triangle”, ecologically it is plainly part of the area. Coconut visibly dominates the landscape. Mature palms grow everywhere except on the land reserved for paddy cultivation. In the villages, houses and other buildings are built amidst the palms.

The Context of the Policy Discourse Against Traders

A major strategy for development in the 1960s and 1970s was founded on the assumption that the state should intervene to replace the private trader. “One particularly prominent strand in Western discourse, which goes back to Aristotle, is the general condemnation of money and trade in the light of an ideal of household self-sufficiency and production for use... Profit-oriented exchange is, however, unnatural; and is destructive of the bonds between households” (Bloch and Parry 1989: 2). Neo-Marxist analysis of traders as a mercantile class, whose actions promote underdevelopment, was a contemporary illustration of the influence of this idealized morality.

Four striking features of this analysis of the role of commerce in under-development are the high level of theoretical abstraction in which it is couched, the use of macro economic indicators for empirical “verification”, the pointed neglect of the work of (presumably bourgeois) anthropologists, and the conceptualization of traders as “unproductive”. This latter carries with it the strong implications that traders are not necessary and moreover, that state intervention to replace rather than to regulate private trade will lead to more productive uses for resources extracted by agriculture (Harriss 1981: 13).

More recently Barbara Harriss (1989: 169) has noted that “...There is no necessary connection between commercialization and agricultural growth or between merchants’ capital and class formation. The connections need empirical specification”. Schaefer-Keihnert and Von Pischke (1986: 8) also point to the lack of empirical
evidence to support the thesis that traders (and moneylenders and landlords) make monopoly profits and use the debt relationship to exploit their clients:

Nor is there any general theory to explain why some small farmers in certain countries, cultures, or production situations live perpetually in debt. It is generally assumed that they have no other choice, but there is not much evidence, say in the form of liquidity studies, that would support this assumption (1986: 8).

The intellectual bias against traders was adopted by the colonial administrators in South Asia and, in turn, implemented in their policies aimed at curbing the role of traders in the economy. This discourse can be seen as a context which influenced policies of successive Sri Lankan Governments before 1977. From 1971 to 1977 the United Front were in government. The Sri Lankan Freedom Party was the major party in the coalition which also included two communist parties: the Lanka Sama Samaja Pakshya (Trotskyist) and the Communist Party (Moscow). This was a quasi-socialist government which held the view that traders are agents of underdevelopment; but similar views were held by preceding governments. A major strategy for development has been founded on the assumption that state intervention to replace the private trader would lead to a more productive use of resources. The approach of successive Sri Lankan governments is illustrative. “...Irrespective of the party in power, the governments had looked to the elimination of the mudalali (trader) as the major goal of their rural economic policies” (Alexander 1981: 122). “The cooperative movement was started in Ceylon in order to furnish the peasant some relief from the monopolistic lender, buyer, and supplier” (Tambiah 1963: 90). Two major approaches to by-pass dependence on traders were adopted. One was the establishment of institutional credit schemes for agricultural production at relatively low rates of interest. The second was the introduction of alternative marketing infrastructures which would give producers a better price and free them from indebtedness. In Sri Lanka, these schemes were aimed, predominantly, at paddy; but there were also less comprehensive attempts aimed at dry grains, vegetables, and coconut.

Prior to 1971, paddy and rationed rice were important sources of collateral for credit for groceries from shopkeepers. Coconut was also important. It was used as collateral for goods from shopkeepers, as well as for cash from traders specializing in coconut sales and copra production. Typically during this period, the most affluent traders had businesses which combined grocery shops with trade in paddy and coconut. During fieldwork in 1974-75, coconut had become the major collateral for credit, and the major source of credit for consumption was the specialized coconut and copra merchants who advanced cash for a future harvest.

The relative importance of shopkeepers and the use of paddy as collateral had declined. In 1974-75, the grocery shops had few goods to sell. The most affluent traders were those who concentrated solely on coconut. The apparent reason for this was a change in legislation. In 1971, the United Front Government prohibited the sale of paddy, except through the Paddy Marketing Board. Ostensibly, this legislation had a dramatic effect on the use of paddy as collateral. Most shopkeepers complained that this had had a devastating effect on their businesses and that this was a major reason why they could not afford to extend credit to customers as they once had done.

This illustrates the impact of a single intervention on changing credit relations. However, it does not explain the situation fully. For example, paddy continued to be marketed on the black market by shopkeepers elsewhere. And indeed, trading of rationed rice and other rationed goods was not curtailed despite earlier legislation in 1956, which made it illegal to sell or transport rationed rice. Similarly, coconut continued to be sold by local traders in spite of the numerous alternative marketing channels which were set up by the government. Nor does the government’s legislation on paddy marketing explain the continued decline in the number of loans taken out through formal sector agricultural production schemes. Nor does it explain the decline in capacity for savings as individuals or in groups, such as ROSCAs or burial societies. More fundamentally, it does not explain the changing content of credit relations between traders and between traders and their customers. To do this requires looking at additional contexts and the credit strategies of individual actors.

**Agro-Ecological Context**

In the research area there are two main agricultural crops: paddy and coconut. Ideologically (Southwold-Llewellyn 1994) and nutritionally, paddy is more important.

**Paddy**

There are two major planting and harvesting seasons. *Maha* is the major cultivation season, roughly from September to March, although in Polgama it is conventionally taken as starting in October. *Yala* is the minor cultivation season from April to August, when the rainfall is less in quantity and reliability.

Polgama is in the Intermediate Zone, which is the area between the Wet Zone where no irrigation is required
for paddy cultivation and the Dry Zone where irrigation is essential for two harvests a year. There was no canal irrigation in the area. Most villages did have reservoir irrigation, although this was insufficient during the two planting seasons studied, except for fields nearest the reservoir. A few farmers irrigated from wells. In Polgama, there was no irrigation of any kind.

This marginality of paddy cultivation was exacerbated by a drought which had started five years previously. According to the Agricultural Extension Officer, the Polgama water problem was not new. From 1963 to 1969, Polgama had three-quarters of the harvests that other villages in the vicinity did; but from 1969 to 1975, there had not been enough rain for successful cultivation. This is certainly supported by the household survey of Polgama from which the harvests starting from Maha, 1971, were recorded. Depending on the location of the plots and the cultivation techniques employed, the harvests of the previous five years had varied; but they had been very poor generally since Maha, 1969-70. During Yala, 1975 (April-August), there was no attempt to plant paddy in any field in Polgama.

Consequently, there had been a decreasing commitment to paddy cultivation. Hence, the adoption of the HYV package of "new" techniques for paddy cultivation was cautious. Ironically, Polgama was one of the most productive paddy cultivating villages in the whole of Kurunegala District in 1938, producing yields between 25 and 30 bushels per acre (Shenoy 1940: 12). Although one must be cautious in interpreting agricultural statistics, these yields correspond, roughly, to those reported for years preceding the research. In other words, the yields are only poor in comparison to those to be expected when using HYV technology. Yet, even during this earlier period, coconut, as a cash crop, was a more important source of income than paddy.

Within this context, it is not surprising that traders were reluctant to extend credit for a future paddy crop which had a high probability of failure.

**Coconut**

In contrast to paddy, coconut was a reliable and predictable crop to which every household had some access. Firstly, coconut was harvested every two months, rather than once or twice a year. Secondly, there was always a harvest. Although the volume and price might vary, it was normally predictable in advance.

The volume of the crop varied with an annual seasonal cycle which peaked during May and June. The high season was usually between April and July; the low season was between October and January. Two prominent features of farm gate prices were that there were wide price fluctuations between years and that price fluctuations between months tended to be much wider than yearly fluctuations (Sri Lanka Government 1984: 19). The national price fluctuations reflected variation in production. To a lesser extent prices were also affected by government price policies aimed to benefit urban consumers and by the international market (see below). These fluctuations were predictable for both producers and traders. The drought also affected coconut production; but during the year of study, there was a glut of coconut relative to other years. The consequence was that, while the average price of a coconut for small producers was 36 cents in 1974, in 1975 it had dropped to 17 cents. In other words, although coconut production increased, the actual total income for producers was less than it had been in previous years.

In spite of the fluctuation in income from coconut due to variations in productivity and market prices, the producer could be assured of some income. A coconut palm will continue to produce nuts for 70 years without any input costs and in conditions of drought, although productivity will be adversely affected. In contrast, there can be no garden cultivation, intercropping, or paddy cultivation without a reliable source of water and cultivation inputs.

Almost every household had access to coconuts for consumption, sale and/or barter. High land (or dry land) is a general term for all permanently cultivated land, other than paddy land (wet land). Most high land had coconut planted on it. In contrast to paddy land, 57 percent (40) of the households in the Polgama household survey owned some high land, while only 37 percent (26) owned some paddy land. But the most significant difference in the distribution of these two types of land was that everyone, whether he owned land or not, had access to some high land. With one exception, every landowner who had a tenant living on his land, regardless of whether or not rent was paid or the tenant was a watchman on his estate, would permit the tenant to pluck coconuts for his household’s own consumption, and to cultivate fruit and vegetables.

Because coconut was the only reliable crop, it was the major source of collateral for credit. Most households were involved in credit transactions which involved coconut at some level. Coconut had become a rural currency. Hence there was increasing dependence on traders who marketed coconut, especially the specialized coconut and copra merchants. Yet neither the legislation on the restriction of paddy marketing nor the agro-ecological context explains the declining role of shopkeepers, especially those predominantly selling groceries, in extending credit.
Wider Economic Context

In 1975, there was a general decline in agricultural incomes, both from paddy, due to the drought, and from coconut, due to the glut in production. However, the agro-ecological context should be placed in a wider economic context. The occupational structure of Polgama was not limited to agricultural sources of income; nor was the location of occupation demarcated by the vicinity. In addition, international market prices for coconut and other commodities had an impact on local prices, as did the government’s policies which were a response to the international market, as well as to other factors.

Occupational Structure

The bulk of coconut and paddy supplies for the market was produced by households whose surplus was small or marginal. Most government schemes, especially those for agricultural credit, however, seemed to be geared to an ideal household producing sufficient surplus for agriculture to be the primary source of income. The myth of the peasant cultivator over-emphasizes the role of agriculture in income and influences the ways national and international policy makers conceptualize “the peasantry” and identify their needs (Southwold-Llewellyn 1987, 1994).

Although agricultural produce, particularly coconut, made some contribution to most household incomes, farming was the primary source of income for only 10 out of 70 households surveyed (14 percent) in Polgama. Forty-six percent (32) of those surveyed said that farming was a source of cash income. In addition, although few households attempted to grow a substantial part of their consumption needs, most grew some vegetables and fruit. However, given the limited amount of land, cultivation was not the primary source of income for the community since the majority did not have access to enough land to meet their subsistence and cash requirements. Even in those households where farming was the largest source of income, in each case the household income was supplemented by other sources.

As a consequence of the supplementary, rather than primary contribution of agricultural production to the economy, economic diversification was a pronounced feature of Polgama. This diversification took two forms: the diversity of occupations and the multiple sources of household income contributed by different household members. Roughly one third were in skilled (e.g. clerks and teachers) or skilled craftsmen’s occupations. Another pronounced feature was the location of employment. Thirty-one percent of those employed worked outside the vicinity (more than six kilometers away). Fourteen percent of those employed worked in towns.

Trading was another main activity that households used to supplement their agricultural income. There was a proliferation of small-scale trading businesses which can be explained by the inexpensive prerequisites for trading and by the central location of Polgama. Without exception, all the traders in Polgama-Gonnawa started trading with a small investment of goods or agricultural produce of the value of Rs.25 to Rs.200. (In 1975, the official rate of exchange was Rs.15.3 to £1). Entry into trading at this level was virtually unrestricted. In the category of trader is included teashop-keepers, grocery shopkeepers, coconut and copra merchants, as well as peddlers and market vendors. These sub-categories are simply a heuristic device: most traders have businesses which fit several of these sub-categories at any one time, and their types of business have changed over their career histories. One third of households had a member who was, or had been, engaged in trading. Seen from this perspective, the attempt to view traders as a separate social category should be questioned both theoretically and methodologically, and certainly with regard to its policy implications (Southwold-Llewellyn 1994).

These figures do not reflect the multiple sources of household income contributed by different household members. They show only the primary source of income. Space does not permit a full discussion. The example of the employment of adult children gives some insight into the multiple household sources of income, as well as the general economy. 55 percent of young adults (over 18 years of age) who were living with their parents were self-employed or employed, 20 percent were still in school. Most significantly, 25 percent were unemployed, i.e. had earned no cash income during the year of study. The high unemployment rate reflected the general state of the national economy.

National Economic Policies

During this period, the government introduced a number of stringent economic policies in response to the international markets and in an attempt to attain a more equitable society. For example, the dramatic increase in the world market price for petroleum, and the increase in the price of raw materials and of intermediate goods such as machines and their spare parts, led to the government’s restriction on imports. This limited to essentials the goods sold in shops. It also limited the availability of raw materials for home industries such as weaving. This policy had a direct effect on incomes from trading and home craft industries.

In addition to introducing legislation to curtail the role of traders in marketing paddy, and to curtail the avail-
ability of imported goods, the government introduced other measures which changed the position of traders. A basic needs policy also reduced the role of traders in the distribution of many staple food items. Most food staples, such as rice, lentils, flour, sugar, dried milk, dried fish, and a number of other items were bought by villagers from the cooperative. This was because the free and/or subsidized rationing system made the cooperative’s goods cheaper. Most shopkeepers could not obtain a license to sell these staples. The most important item both politically and nutritionally was rice. In 1975, the weekly per capita allowance was 1.5 pounds free and 2 pounds at a regulated price. The subsidized price at the time of the study was less than one third the market price for rice. This policy, plus the restriction on imports, meant that there was little in the shops to sell. To give some indication of the impact of these policies, one shopkeeper told me that before 1972 he had had a turnover of Rs.1,800 per month. By 1975 it was reduced to Rs.700. The general pattern of dramatically reduced incomes among traders must, at least in part, be attributed to these policies.

In the same vein as its policy to staple food items, with regard to coconut the government pursued policies which would protect the consumer. The decline in coconut and coconut product prices between 1974 and 1975 was, in part, influenced by the international markets, especially with regard to coconut oil and desiccated coconut. In contrast, the average export price of copra more than doubled (Sri Lanka Government 1975, 1976), and bears no relation to local prices which slumped proportionately to those for coconut. Unlike other export commodities (e.g. tea and rubber), only the surplus to national domestic requirements was exported. According to the Ministry of Coconut Industries policy document, “Coconut Development Strategy”, the government’s main aim was to maintain supplies for domestic consumption.

The objectives of government policy in the coconut sector have been, among others, to ensure an adequate supply of coconuts and coconut oil for domestic consumption. While increases of export earnings from coconut products is also an important objective, it is considered to be secondary to the objective of satisfying domestic needs. In bad crop years, exports had often to be curtailed or even banned to maintain an adequate domestic supply. To realize these objectives the government provides various subsidy schemes and agricultural support services for coconut cultivation, and instituted an export duty system to control the export of coconut products (Sri Lanka Government 1984: 8).

Consequently, prices to producers were depressed.

The government interference in the market place altered trade flows and prevented producers from receiving the full benefit of international prices. The consumer protection policy which prevailed in the 1970s also contributed to the neglect of coconut properties and the poor performance of coconut production (Sri Lanka Government 1984: 20).

The national market affected prices and strategies employed by local merchants, whether they sold copra or coconut. Government decisions were made according to the best national interests in relation to the international market and domestic consumption needs, not the best interests of producers or petty traders. Hence, there was no cushion for the producers and their brokers when the market was glutted. During July and August, 1975, the copra warehouses in Colombo were glutted. In part the glut was due to the fact that 1975 was a year of high coconut production. This was exacerbated by a ministerial decision that no coconut oil would be exported. Therefore, the consequence of government policies was to lower the price for the consumer, the copra producer, and the coconut cultivator, and to reinforce the dependency of producers and cultivators on traders.

Another government policy which affected credit relations was a ceiling on land ownership, introduced in 1972. The maximum for one landowner was set at 50 acres, of which 25 acres could be paddy land. This was a disincentive for investing in land, and had the consequence that land was less likely to be used as collateral for credit. Although the proportion of land mortgaged to traders was but a fraction of that mortgaged to kinsmen, several traders had invested heavily in land outside the village before the period of research. In addition, the nationalization of nearby coconut estates, and a policy to offer employment to unemployed youths, reduced the employment opportunities for adults with families.

When It Is Hard to Save

In the context of declining incomes from paddy, coconut, trading and home craft industries, the demand for credit was increasing and the sources of credit were declining. Credit played an important part in almost all households, particularly because of the fluctuating imbalance between income and expenditure. There were three major areas of expenditure: production, consumption, and emergencies. Although production is given most emphasis by planners, it was consumption expenditure (see also Heidhues, chapter 3) which dominated expenditure in two ways. In the first place, it took the largest slice
of total income. In the second place, the proportion of consumption expenditure was inversely related to income: poorer households spent a larger proportion of their income on consumption than did better off households. Even in rural areas where agricultural production is high, poorer households have been reported in one study to spend an average of two-thirds of their total income on buying food (Ponnambalam 1981: 59). A larger proportion of income that was spent on food was concealed by government subsidies on most staple items.

Two major ways of coping with expenditure needs are savings and credit. Cash saving was not a long-term strategy that many households were able to pursue. Eighty-two percent of households in Polgama had no cash savings during the year of the study, which was a period of financial stringency. Perhaps more significantly, 71 percent said they had never had cash savings. This is particularly important with regard to the debate on the role of saving and capital formation for development (Firth and Yamey 1964; Howell and Adams 1980; Von Pischke 1981). In contrast to saving, borrowing seemed to be a strategy employed by most households. 87 percent of households admitted that they used credit as a strategy; and 88 percent of these borrowed for consumption.

**Decreasing Sources of Credit for Production and Consumption**

There were several different sources of credit. Family and friends, among them moneylenders, and rotating savings and credit societies, were sources of credit which were not limited in purpose, although they were primarily used to meet daily consumption needs and emergencies. They were accessible only through a social network. Formal credit institutions such as banks gave credit primarily for production purposes, and for some long-term consumption needs, but not for daily consumption. Access was restricted by lack of creditworthiness and by bureaucratic procedure. Traders provided credit for production and consumption needs and were accessible, at some level, to everyone (Southwold-Llewellyn 1991).

**Institutional Credit**

Loans through institutional sources, such as banks and cooperatives, were limited to a specific purpose for a specific period of time. Access was limited to those with financial and social resources to provide them with guarantors. The introduction of pawn loans enabled loans for consumption and emergencies to be given by the Rural Bank; but the scheme was only available to those who were able to mortgage jewelry, particularly gold. Therefore, by their very structure, institutional loans were not available and useful to most people, whether because of their lack of “creditworthiness” or through the institutions’ failure to meet people’s most pressing credit needs for daily consumption.

In contrast to other forms of institutional credit, agricultural loans for paddy production in Sri Lanka were relatively accessible. With regard to coconut, both the awareness and the receiving of subsidies for seedlings and fertilizer were minimal (Sri Lanka Government 1984), and no one in Polgama received them. Officially, agricultural credit was not intended to meet consumption needs. However, since consumption needs were more urgent, credit given for agricultural purposes was often used for so-called non-productive purposes. Rural credit must be seen as fungible towards consumption. For whatever purpose they were used, paddy production loans from the formal sector ceased because of the drought and the consequent defaults on repayment. There were no agricultural loans after Maha, 1973-74, for Polgama and Gonnawa and the surrounding eight villages.

To reduce household consumption risks, the Sri Lankan government had had various programs to meet basic needs such as free health services and food rations. These had, no doubt, ameliorated the demands for certain types of consumption. However, daily consumption remained paramount and in a situation of economic stress it is not surprising that these ameliorative policies were not sufficient. The ILO report on basic needs summarizes the conclusions of several research projects in Sri Lanka which show that private money was a far more important source of credit.

Even after 30 years of credit schemes the majority of farmers continue to depend on non-institutional sources of lending, although credit is granted without any form of security and at a low rate of interest (Richards and Gooneratne 1980: 116-117).

**Savings and Credit Societies (Naya Dena Samitiya)**

There were three death donation societies that had members from Polgama. None appeared to be functioning in 1975. Like the death donation societies, the Gonnawa Credit Society had become moribund. Similarly, five

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1. Whether non-cash savings, such as saving reserves of coconut or ration sugar, are to be considered a form of saving is a matter I exclude from the present discussion.
out of the eight ROSCAs with Polgama members which had been started since 1968 had ceased to operate. Given the economic slump, it is not surprising that credit societies were not flourishing. All of these societies required regular contributions; and I suspect that this may be a reason for their malaise and is another indication of the economic depression.

**Informal Sources: Relatives, Friends and Traders**

Family and friends continued to make the largest contribution towards supplying cash loans and mortgages. However, as individual funds were decreasing, they too were less able to lend money.

A striking feature of this financial landscape was the small number of traders who gave loans with interest or mortgages of any sort. In fact, of all the 42 traders in Polgama-Gonnawa, only three were mentioned as giving loans with interest (*naya*); and they were all copra merchants. There were five traders (including two who also gave *naya*) who exchanged money without interest, usually reciprocally and four who gave mortgages. This is in marked contrast to the caricature of the unscrupulous trader who tricks villagers out of their land. In contrast, mortgages were most frequently given to siblings.

At the same time as the demand for credit increased, the availability of credit decreased. Production loans from the formal sector ceased because of the drought and the consequent defaults on repayment of previous loans. Few had the resources to contribute regularly to ROSCAs and other savings services. Shopkeepers were hit by the general recession. Kinsmen and friends who were themselves less well off were less able to lend money. The lack of paddy cultivation also meant that paddy was not available to be used as collateral.

Consequently, traders, particularly those involved in coconut marketing, became the major source of comprehensive credit. The major credit role of traders is for daily consumption credit, in addition to providing credit for production and emergencies.

**Mutual Dependence Between Traders and Households**

Three of the most predominant characteristics of borrowing for domestic expenditure from both shopkeepers and copra merchants were: (1) the debt was spread over more than one creditor source, (2) the debts were for small amounts, and (3) the borrowing was frequent -- perhaps several times a week.

Those with landholdings under two acres typically sold their coconut to shopkeepers who also dealt in coconut. Those owning over two acres of high land typically had an account with a copra merchant. The pattern of borrowing was to borrow small amounts frequently. These were advances on future harvests.

Most households, even those with an account with a copra merchant, sold a few coconuts to shopkeepers on a barter basis. These shopkeeper-coconut merchants were particularly important for the landless and for those with very small landholdings who needed to maximize their credit resources. In addition to these small subsistence farmers, landless tenants and employees also sold nuts to subsist. Landlords and employers had a moral obligation to give coconuts to their landless tenants or employees for their domestic subsistence. The landless, like marginal landowners, often sold/bartered these nuts to meet other, more pressing, consumption needs.

Credit, both receiving and giving credit, was central to understanding how traders operated their businesses. Traders needed credit to secure an on-going supply of goods, to bridge gaps in income, and to finance expansion, as well as to meet the consumption needs of their own households. Traders also needed to give credit to maintain their business, since indebtedness helped to maintain an on-going relationship with customers and suppliers of agricultural crops (Geertz 1963: 36; Yalman 1967: 49). Traders operated within a hierarchy of interdependent relations as both borrowers and lenders.

A distinction between shopkeepers and copra merchants is useful for understanding how traders operated their businesses, because the two types operated with different structural constraints. There were basic differences in the way they organized their businesses with regard to management and access to credit. On what terms advances were given was a central criterion for the distinction between shopkeepers and copra merchants. Shopkeepers gave and were given advances in goods for repayment in cash; copra traders gave and were given advances in cash for repayment in coconuts.

These various contexts explain the forms of financial landscapes in Polgama and Gonnawa; but they do not explain the content of credit relationships. To do this, we need to consider the differential responses to these changing contexts. In the following part of this chapter, a discussion of the changing role of shopkeepers will be used to illustrate the content of credit relationships. For the sake of brevity, only credit relationships of shopkeepers and shopkeeper-coconut merchants will be discussed.
Shopkeepers’ Changing Credit Relations with Customers

Prior to 1971, shopkeepers were a major source of consumption credit. Credit continued to be important for securing customers, but the extent of credit became limited. Shopkeepers said that the “bad state of the economy” was the major reason why they had to curtail credit. The reason they gave for the “bad state of the economy” was the government’s policies, with particular regard to paddy marketing legislation, and restrictions on imports and the sale of staple foods.

Strategies for Securing Customers

Most traders started with a tea and vegetable shop. The low capital threshold of entry and the subsequent replication of these petty trading enterprises made competition to secure and maintain customers fierce. Credit in the form of advances in goods was given to build a clientele. Yet, the “generosity” of the novice trader was exploited, in effect, by everyone. It was common for a poor householder to visit several different shops each day, getting a few Rupees worth of goods on credit at each. Relatives expected, if not demanded, goods for which they often did not pay. Often, customers borrowed to the limit the new trader would give them and then no longer patronized the shop. Those that sold prepared food, however, were the most vulnerable to requests for charity from the destitute. These were typically the newest and the least capitalized of the shops.

Better established shopkeepers were less vulnerable because they were in a better position to decline custom on credit. But the problem of default plagued them all. Some said they limited credit to those who had salaried posts or who would sell them coconuts; others said they must give credit to build a clientele and to appease kinsmen. In all cases, however, the trader realized that he was unlikely to be repaid for a substantial proportion of the goods he stocked and that this was a cost of running a business. Virtually every shopkeeper, of those 34 who were interviewed on this subject, said he lost at least 10 percent on unpaid debts each month. The factuality of this is less important than the fact that it was believed to be true.

Hence, accepting defaults as a cost of business was as important for securing custom as was giving credit. Repeatedly, I was told by shopkeepers that they would only ask to be repaid once or twice. Most debtors said that they intended to repay their debts; but then realized that they could not. If the shopkeeper badgered a customer, the customer would be embarrassed, he would no longer patronize the shop, and he would be lost as a potential cash-paying customer.

To compensate for these losses, different traders had different approaches. Some charged debtors more. Some increased the prices of all goods to compensate for their losses. However, if the prices were increased unreasonably high, few would go to the shop.

The shopkeepers’ customers were the most volatile. High charges, as expressed in high prices for goods, were often used as an excuse by customers for leaving debts unpaid. They could also be used by shopkeepers to discourage customers whom they perceived as a bad risk.

More typically, credit to marginal agricultural producers and wage earners (who often bartered the coconuts for their own subsistence) was limited to between five and fifteen Rupees. Those who produced an agricultural surplus could get more credit: usually between five and fifty Rupees. Wage earners with reliably good incomes, e.g. civil servants, teachers, etc., had monthly accounts.

Another strategy for both encouraging and discouraging customers was the use of politeness. Initially, a trader would give a new customer a cup of tea and a cigarette, wrap his purchases nicely, and advance credit whenever he was asked. To discourage custom, the shopkeeper might embarrass a debtor by asking him to pay his debt in front of others; this was a particularly useful way of discouraging relatives. Yet, other traders told me that they would ask for repayment once or twice, but no more than that for fear of losing the customer altogether.

A third strategy for securing customers was to sell goods at what was seen to be a fair price, and to give credit on reasonable terms. Senaratne found that shopkeepers have to counter the competition from other shops in the nearby town:

... by making the conditions economically attractive, as well as by providing for the purchase a background of personal relationship. Credit achieves both. A shopkeeper’s skill lies in knowing what maximum of consumer credit his business can stand with safety, and then in keeping his customers happy while sticking rigidly to this limit. No shopkeeper really manages to do both (Senaratne 1971: 137).

This precarious balancing act to secure customers was particularly risky at the initial stages of business and accounts for the high rate of failures. What must be borne in mind is that there were few sanctions that a shopkeeper could use against his defaulting clientele. The most rigorous sanction any shopkeeper had was to withhold future credit, and thus lose a customer.
Moral Obligations to Give Credit

Giving credit cannot be explained solely by the economic rationale of securing customers. Shopkeepers had a moral obligation to give credit for consumption to those in need, particularly if they were regular customers, friends, kinsmen, or destitute strangers.

In the cases of the destitute and of kinsmen and neighbors, most traders believed that they had a moral obligation to give goods to those in need. Nominally these goods were given as credit, although neither party might have expected repayment to be made. The idea of moral obligations to the poor was widespread. Thompson coined the term “the moral economy of the poor” in his influential work, “The English Crowd in the Eighteenth Century” (1971: 79). Like Thompson, Scott has argued that there is a shared moral universe of what is just in peasant communities of Southeast Asia. A central principle for shaping dependent class relations is the notion, held by the poor, that they have a right to their subsistence needs (Scott 1976: 33). John Harriss has summarized the argument:

The right to subsistence defines the reciprocal duty of the powerful, the minimal obligations that they owe to those from whom they claim labor (appropriate surplus value). The principle of reciprocity does not mean that equivalent goods and services have to be exchanged between the dominant and the subordinate classes, but that the legitimacy of the exchange depends upon the extent to which the expectations of the dependent class, rooted in their minimum needs for security, are satisfied. The argument suggests that people define “exploitation” in relation to their ideas about their minimum livelihood requirements (1982: 259).

In Polgama, “dependent class relations” of this type were limited to those few with client-patron relationships, particularly between employees and employers, and to some extent to those few with tenant-landlord relationships. In contrast, the long-term relationship of dependence of coconut cultivators on coconut merchants for consumption credit was not a relationship of dependence, but one of mutual interdependence.

The short-term credit relations between shopkeepers and their customers were based on slightly different moral principles. This was not a long-term relation of economic dependence. Credit to kinsmen was based on social, not economic, criteria; nor would the same kinsman expect advances on goods on an on-going basis unless an economic relationship had been established. In the case of credit to the destitute, many of whom were strangers, the moral obligation to give to the destitute was based on the Buddhist injunction to feed the hungry.

The Changing Credit Role of Shopkeepers

Juxtaposed to these business and ideological reasons for giving credit, there was a growing rationale for ignoring these obligations. The changing and divergent attitudes that individual traders had about giving credit to kinsmen illustrate how “... Cultural rules have a dynamic quality, capable of producing transformations in meaning and changing or redirecting behavior along new paths” (Kapferer 1976: 13). The changing contexts in which they were operating (e.g. government legislation, the international, national and local economic situation) provided a framework for these shopkeepers to conceptualize and legitimize their changes in attitude and behavior.

Thus, changes in the economic situation were used to explain certain attitudes which did not honor ideal relations with kinsmen. These attitudes were presented as different from those held in the past. Whether or not this was in fact the case is academic. What is significant is that the current economic situation was seen to legitimize evading the expectations of kinsmen for credit.

In their minds, there was a conflict between the moral principle to give to kinsmen and the economic principle to withhold credit from likely defaulters. Shopkeepers felt ambivalent about their relatives. On the one hand, “How can you say, “no”, to relatives?” On the other hand, “Relatives are always jealous”. Because of the “bad state of the economy”, shopkeepers said they would not give credit more than a couple of times without repayment. Yet “if a person explains his difficulties, I’ll give him money, even if I know he will not repay.” These ambiguities were not new; but the changing context of these relationships had led to a dwindling role for the shopkeeper in the provision of consumption credit based on long-term credit relationships.

One reason for this dwindling role was that the government had curtailed shopkeepers by making a government monopoly of most basic food stuffs, particularly rice, and restricting the importation of “luxury” goods. Secondly, paddy was not used as collateral due to the government controls on its marketing and decreasing importance of its production for income. And, thirdly, there was a lowered standard of living due to high unemployment and to the failure of the paddy crop for five years; this had encouraged the proliferation of competing small shopkeepers. Consequently, capital circulation was restricted to such an extent that shopkeepers did not have a margin of profit that would enable them to sustain more than a 10 to 15 percent loss from their debtors. This helps to account for the mushroom growth and decline of shops.
Conclusions

The discourse against traders has been used by successive governments before 1977 as an excuse for the lack of economic prosperity. Yet, it was a discourse that was also manipulated by the traders themselves. The government attempted to curb shopkeepers by controlling paddy marketing and by limiting imports, which provided an opportunity for many shopkeepers to extricate themselves from their “traditional” obligations. Those starting a business with a tea shop were in the least advantageous position to extricate themselves from these obligations; and they continued to be the most vulnerable creditors. But those businesses which were able to survive to a grocery-shop stage of development were able to use this legislation to their advantage. The declining prosperity of shopkeepers was made a convenient excuse for not giving credit to customers and to relatives and friends in need.

The policies of various Sri Lankan Governments reflect the conflicting theories about the role of traders in rural development. Traders are presented as entrepreneurial innovators, as agents of stagnation operating at the margins of subsistence, as purveyors of credit which sustains the household, or as agents of underdevelopment and pauperization of these same households (Harriss 1981).

From 1971 to 1977 the United Front were in government. This was a quasi-socialist government which held the view that traders are agents of underdevelopment; but similar views were held by preceding governments. After the defeat of the United Front in 1977, the new government led by the United National Party pursued policies reflecting more neo-classical economic views about the role of traders in development. Their policies have had a profound impact on local credit relations and on the saving and borrowing behavior of the public. It would be interesting, after 20 years, to see how the financial landscape of Polgama has changed.

The period of study was one of economic stringency for Sri Lanka as a whole, as well as for the villagers in the area studied. As a consequence, there was a distortion of household income structure and credit relations from what it appears they would have been during periods of greater affluence. The distortion creates many methodological and theoretical problems for the researcher. While the factors of the multiple contexts examined may have led to a distortion of norms, they nevertheless also provide an opportunity to examine the nature of economic relations during a period of economic stress. During such a period, the principles, on which economic relations and government decisions are based, are critically tested.

This paper has been an attempt to map out some of the multiple and changing contextual factors which structure financial landscapes, and to analyze the differential responses by individuals to this ever changing landscape.

References


