

Proceedings
of
workshop
on



SMALL FARMERS DEVELOPMENT AND CREDIT POLICY

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Kathmandu Nepal

April 7-11, 1980

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SMALL FARMERS

DEVELOPMENT

AND

CREDIT POLICY

KATHMANDU, NEPAL

April 7-11, 1980

Held under the Joint Collaboration of ACTI

Agricultural Development Bank/Nepal

and

Ministry of Home Panchayat, HMG/Nepal

and

Department of Agricultural Economics and Rural Sociology

The Ohio State University, U. S. A.

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Preface

"Development of Small Farmers" is a term of the day frequently used by the development planners, policy-makers, politicians, intellectuals and the farmers themselves. Small farmers, in fact, represent the vast majority of the population and their aggregate development is the country's development as a whole. It would have been incomplete and perhaps wrong statement and injustice to the real phenomena of the country if we attempt to picture it out by taking the small farmers out of the column. A small farmer by virtue of his existence as a human being in the society, naturally ponders upon unlimited wants, desires and expectations. Rather, his basic needs are required to be fulfilled - a multi-disciplinary activity is automatically born and hence a complex problematic situation starts to grow up which needs to be discussed and solved with multi-disciplinary approaches and action. This is the case prevailing in all the developing countries including Nepal. In order to cover all such established facts and aspects in relation to small farmers, a workshop having a wide range of topics on "Small Farmers Development and Credit Policy" was held in April 1980 under the joint collaboration of Ministry of Home Panchayat, HMG/Nepal, Agricultural Credit Training Institute (ACTI), Agricultural Development Bank/Nepal and Department of Agricultural Economics and Rural Sociology, The Ohio State University, USA and USAID/Nepal. The contents and quality of this workshop have been enriched by its materials, as they are worthy and valuable, presented by distinguished scholars and intellectuals of Nepal and other countries. This proceeding is a product of that workshop.

I am extremely grateful to Ministry of Home Panchayat, HMG/N for arranging this workshop. I am very much indebted to Department of Agricultural Economics and Rural Sociology, The Ohio State University, USA which contributed to the workshop with resource persons. I would like to express my deep sense of gratitude to USAID/Nepal for providing financial assistance to the workshop. I cordially thank Prof. Dale W. Adams, Dept. of Agricultural Economics and Rural Sociology, OSU, USA for his inspiring enthusiasm to organize this workshop. I am grateful to Agricultural Development Bank, Nepal for providing its full support and encouragement to organize and materialize the workshop.

I would like to extend my sincere thanks to learned speakers and intellectual paper writers for their scholastic paper writings, whose findings are based on empirical research and personal experiences. I am equally indebted to distinguished and learned guests for providing their valuable time to chair for full time sessions with great morale and untiring patience. I am also obliged to the respected participants for expressing their sound and reasonable view points and taking active participation, without which, this workshop would not have been successful.

Miss Ishwari Karki, Section Officer, ACTI, deserves special thanks for fully devoting her time and energy for the publication of the workshop proceedings in this shape. Lastly, I would like to thank the concerned staff of Agricultural Development Bank for assisting arduously in the conduct of this workshop and publishing its proceedings.

June 1981

C. M. Pradhan
Act - Director General
ACTI.

Introduction and Outline of the Workshop

Introduction:

The crucial fact that has been conceived at present is that small farmers who constitute the largest segment of the population have always been by-passed from the mainstream of development process in almost all underdeveloped countries. Although certain progress towards the development of economy has been made mainly due to planned efforts, yet the benefits of development have largely been derived by the relatively well-to-do sector. The gap between large and small farmers has continued to widen. Under such circumstances, economists have arrived at a consensus that the pace of development could be augmented through the participation of the small farmers as well in the development process, whose welfare in terms of income and employment assumes to be significant.

Realizing the irrelevancy of the outmoded concept of dispersing developmental inputs and benefits on the basis of trickle-down theory, a new approach has in the recent past, emerged to directly reach the target group in the form of Small Farmer Development Project. Nepal surely did not lag behind in entering this new era and undertook the task of reaching such target groups with necessary developmental support since 1972. The concept of group organisation was widely propagated since then. From its infancy to the present stage, the programme has significantly grown and as a result, there are 24 Small Farmer Development Projects in operation throughout the country. Now that a foundation has been laid, it becomes important to exchange ideas and settle pertinent issues that creep in time.

Furthermore, it is noteworthy to mention that several countries have adopted different courses of actions varying from integrated approach to filter down approach in accordance with their local conditions, social values and attitudes. The integrated approach we have chosen for Nepal has to be frequently reviewed to assess its applicability.

Since its onset, we have always been benefitted from the discussions workshops and seminars held in Nepal and elsewhere and it is believed that the proposed workshop will reconcile ideas and experiences born in different soils for settling major issues.

Objectives:

The objective of the proposed workshop is to provide a forum for exchange of experiences in formulating and implementing Small Farmer Development Programmes within the integrated rural development framework and to explore appropriate ways of bringing structural improvements that may be needed for making small farmers self-reliant. The specific objectives, however, would be as follows:

1. To study the ways of integrating Small Farmer Development Programme with the Integrated Rural Development Programme of His Majesty's Government.
2. To study ways of strengthening the small farmer groups so that they receive adequate services from district level agencies under the Integrated Rural Development Programme.
3. To study the effect of group lending programme in reducing the transaction cost to both lender as well as borrower.
4. To study the present strategy for the development of small farmers and suggest ways in improving the Small Farmer Development Programme.
5. To share the experiences of Third World Countries regarding *Small Farmer Development Programme*.
6. To Study the ways of making interest policy effective in mobilising rural savings and in diverting the resources to productive sectors in rural community.
7. To study the ways of effectively financing the credit needs of non-farm enterprises particularly those run by small artisans.

Sponsorship:

The workshop was jointly organised by ACTI, Agricultural Development Bank/Nepal, Ministry of Home Panchayat, HMG Nepal and Department of Agricultural Economics and Rural Sociology, The Ohio State University, USA.

Date:

April 7, 1980 to April 11, 1980.

Venue:

Shanker Hotel, Kathmandu, Nepal.

Pattern of Participation:

A number of intellectuals and distinguished personalities from various government, semi-government and private institutions of Nepal participated in the workshop such as Ministry of Food and Agriculture, Ministry of Home Panchayat, Department of Land Reform, Integrated Hill Development Project, CEDA and other Institutes of Tribhuvan University, Agricultural Development Bank, Agricultural Project Services Centre, Agricultural Input corporation, Nepal Rastra Bank, Rastriya Baniija Bank, Nepal Bank Ltd, Bio-gas and Agri-Equipment Development Co. Integrated Development System, New Era etc. A number of participants were of the foreign nationals representing different foreign offices located in Nepal and outside. Besides, the bankers and credit specialists from India, Bangladesh, Thailand and USA also participated in throughout the workshop

Field Trip: A field visit was arranged for the participants to Small Farmers Development Project/Tupche, Nuwakot.

*Mr. Chairman, Hon'ble Minister of State for Food,
Agriculture, Industry & Commerce, Fellow Participants,
Distinguished Guests, Ladies and Gentlemen,*

I feel happy to welcome you all to this workshop on Small Farmers Development and Credit Policy on behalf of ADB and on my own.

First-of-all, I would like to thank Ohio State University, Ministry of Home Panchayat, HMG/N for providing opportunity to organise this international workshop in Nepal.

Welcome

Address



Dr. Dip Raj Sharma
*General Manager
Agricultural Development
Bank*

Many governments of developing countries and international organizations like FAO, UNDP and UNESCO, seem to be very much anxious in improving the socio-economic standard of the rural poor, i. e. small farmers; who constitute the vast majority of the total population of most of the developing countries. It is indeed a happy notion for the people, who are engaged in the production of developmental work among the rural poor of developing countries.

We, in Nepal, are quite eager and dedicated to do our best to improve the socio-economic status of the small farmers. In this regard, the first step was taken in Nepal in 1975/76; on the initiation of ASARRD (Asian Survey for Agrarian Reform and Rural Development) and His Majesty's Govt./Nepal by launching two pilot projects - one at Mahendranagar, Dhanusha, and another at Tupche, Nuwakot of Nepal. The responsibility of implementing these projects was given by HMG to Agricultural Development Bank/Nepal, for which

WELCOME ADDRESS

I personally feel it to be our great privilege. Group approach is a unique feature adopted in the small farmers development programme of Nepal. Different groups of small farmers were organised in these two projects and various services like credit, seeds, fertilizers and other agri-inputs were provided to small farmers through these groups on joint liability. Other socio-economic activities such as family planning, sanitation, adult-education etc., have also been provided to small farmers. Thus, small farmers have been quite conscious and their socio-economic standard has been raised to a considerable extent in two projects. The Project-Chief of the Small Farmer Development Project works as a motivator and extension agent in these projects.

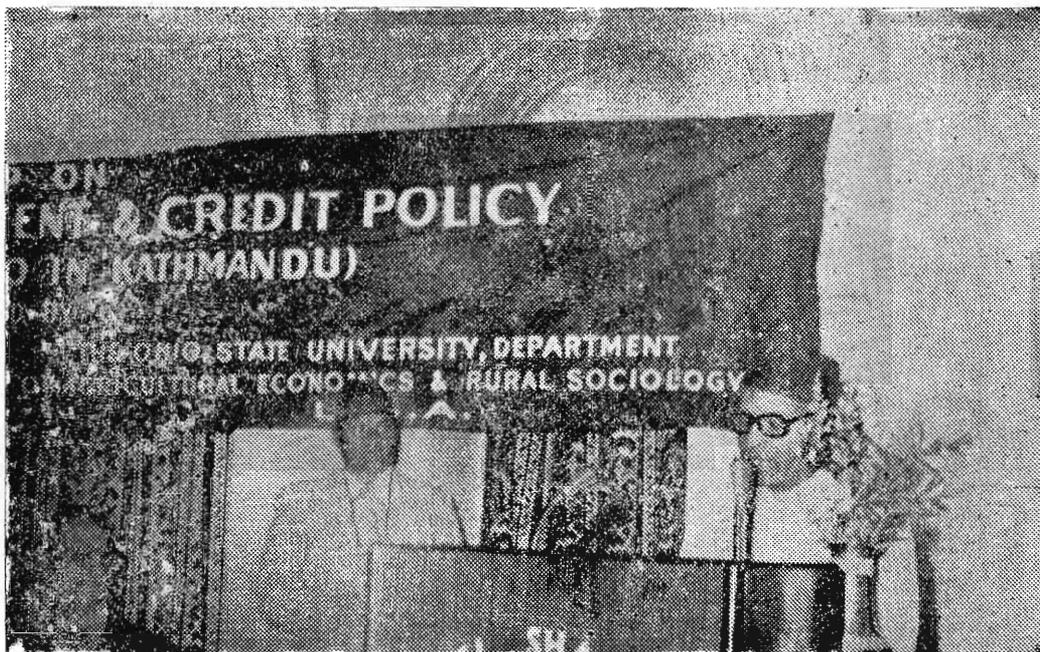
Food and Agriculture Organization, Regional Office, Bangkok and Agricultural Project Services Centre, Kathmandu have made an evaluation of these two projects independently. The impact of the programme has been found to be pretty good.

Seeing the success of the programme on these two projects, Agricultural Development Bank has expanded small farmer development programme in 30 districts by FY 1979/80. The total number of the projects including the sub-centres comes to 35 by the end of FY 1979/80. The Bank has plan to replicate the programme in the coming Sixth Five Year Plan and the total number of the projects during the plan period throughout the country will be 210.

Regarding the achievements made in the Small Farmer Development Programme so far, 528 groups have been formed in the above mentioned 35 projects and 5,833 small farmers have joined the group. The credit amounting to Rs 8.89 million has been disbursed to small farmers and Rs. 2.34 million has been recovered from them by the end of FY 1979/80. Awareness has been created among the small farmers as regards to their right to demand various services from the government and other agencies. After the inception of the programme, the income of the small farmers has been increased to a great extent and our goal is to make them self-reliant. I am quite confident that; if the momentum and speed of the programme is continued; the small farmers of this country have a bright future and through this programme, we will be able to gain social and economic justice to the society and to the country as a whole.

Once again, I would like to extend my hearty thanks to the organizers of the programme and participants as well.

Thank You!



Dr. Dip Raj Sharma, General Manager of ADB/N delivering the welcome address on the workshop.



Dr. Dip Raj Sharma giving his remarks on the workshop.

*Mr. Chairman, Distinguished Minister,
Ladies and Gentlemen,*

It is my pleasure on behalf of Ohio State University along with AID, the USAID Mission in Nepal and the Agricultural Development Bank to welcome you to this Workshop.

This is the seventh Agricultural Finance workshop that Ohio State University has participated in during the past 2½ years. We have held workshops in Jamaica, Dominican Republic, Tunisia and Calgary. About a year ago, we participated in a workshop with the Bangladesh Bank. We are pleased to have with us at this meeting Mr. M. A. Majid Molla of the Bangladesh Bank who was responsible for organizing that meeting. Mr. Molla has just completed publication of those proceedings and you may want to talk to him about getting a copy. At that workshop, we became acquainted with Prof. Mohammed Yunus of Chittagong University. We are happy we could bring Prof. Yunus here to report on his interesting work. We also have with us Mr. Gary Adams of the USAID Mission in Bangladesh to report on the interesting experimental credit project they are undertaking. We also met B. M. Desai at that meeting and he is with us to report on his research on group lending. In June last year we cosponsored a Workshop with the Overseas Development Institute (ODI) held at Wye College outside London. The proceedings should be available in June from ODI. At that meeting we met Dr. Barbara Harriss currently conducting research in India and we are happy she is here to present some of the interesting work she introduced us to at Wye College.

Opening Remarks



Prof. Richard L. Meyer
USAID/Thailand

OPENING REMARKS

We have a two-fold objective for participation in these workshops. First, we are interested in learning about the institutions and activities of the country in which we are holding the workshop. Second, we want to bring in selected outsiders who have done innovative work in agricultural finance and give them an opportunity to share their work with us.

The participation of Ohio State University in these workshops is sponsored by the Agency for International Development in Washington. I'm pleased we have at this Workshop Dr. Cliff Barton from that office. Cliff wears two hats when he attends these meetings. First, he is monitoring OSU activities. Second, he is an established researcher as an economic anthropologist. He has done interesting work in the area of informal finance, particularly the finance of non-farm firms. He is on the agenda and I'm sure you will be interested to learn of his work.

One of the objectives of our project with AID is to stimulate a discussion and exchange of views which will take place during this workshop. To facilitate that exchange, We try to make available a wide range of publications. Later today, we will set up a display with a sample of these publications. We invite you to be placed on the mailing list for the quarterly Agricultural Finance Newsletter and to write for specific publications that may be of interest.

I share with Sri Krishna our disappointment that Dr. Dale Adams is not here. I know that a number of you know Dale and were looking forward to seeing him again. Because of an illness in his family, he cannot be here. He visited Nepal about a year ago and discussed the idea of this Workshop with Sri Krishna and the USAID Mission. Upon return to Columbus, he was very enthusiastic about the possibility and was eagerly looking forward to it. He found this to be a unique country and found people in the ADB, Ministries and elsewhere eager to talk about their work and learn from others. Unfortunately a couple of weeks ago, he called me in Bangkok to say that an illness in the family prevented him from attending and asked if I'd take his place. In just the few hours I've been here, I've learned something of the enthusiasm he found and I'm delighted to be here and look forward to the meeting.

At this time I would like to direct a question to Sri Krishna. I noticed that our meetings are scheduled for next door in a room with a sign over the door reading the "One-eyed Bar". I've wondered since then what he is trying to

OPENING REMARKS

tell us. I suspect there is a message. Is it that in most of our work in agricultural finance we look at it with just one eye ? May be Sri Krishna is hoping that through this workshp we will begin to look at it with both eyes.

Let me say in conclusion that the subject we are dealing with--small farmer development and agricultural finance--is extremely complicated. I look forward to learning about the experiences of ADB and other agencies in Nepal to see if you have been more successful where frankly most other countries have failed. In fact, I will go so far tomorrow as to suggest that most agricultural finance projects have failed. I will discuss some of the reasons for that conclusion. This is a terribly difficult area. We have not found the solution. I hope that in small measure this workshop will help us open both eyes and look at the issue a bit more clearly.

Thank You !

Mr. Chairman, Distinguished Delegates and Friends,

It is indeed, an honour for me to inaugurate this workshop on "Small Farmers Development and Credit Policy" organised by Agricultural Development Bank in cooperation with Ministry of Home Panchayat and the Ohio State University, USA. I would like to say a few words on this occasion. First of all, I cannot help but thank the coordinating committee of the workshop for giving me this opportunity.

Inaugural Address



**Hon'ble Mr. Bijaya Prakash
Thebe**

*Minister of State for Food,
Agriculture, Industry and
Commerce*

I feel, the workshop is very timely because it is being held at a time when our attention is being focussed on how to achieve the overall development of small farmers during the Sixth Plan period.

As you all know, Nepal being a country mainly of small farmers, I don't have to tell you the role of credit as a major input required to carry out agricultural production programmes by the small farmers. Although efforts are made to deliver institutionalised credit through the cooperatives and other village level institutions, the bulk of the credit requirements of the poor farmers are still being supplied through non-institutional sources with exorbitant rate of interests.

Our past experiences have shown that developmental benefits by-passed the majority of small farmers due to the fact that they could not be able to mingle in the main stream of developmental activities. On the other hand, the big and middle size farmers received most of the agricultural developmental services and facilities which further boosted their production and income thereby

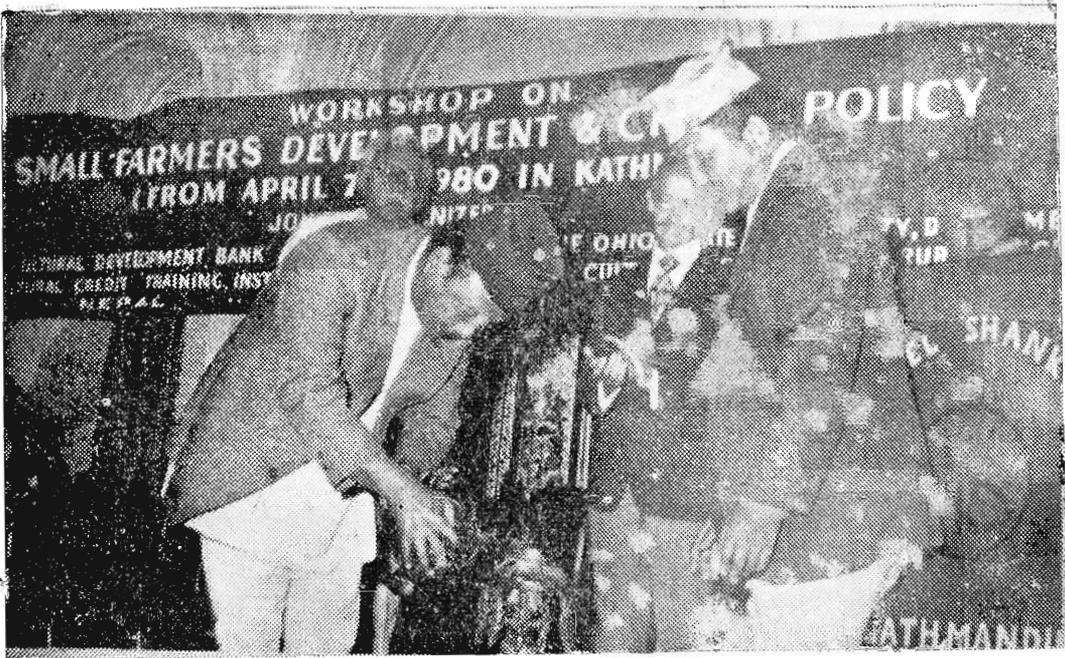
INAUGURAL ADDRESS

creating wide gap among the small, middle and big classes of farmers. Realising the fact, a workshop on Development Support for Small Farmers was organised in 1974. This workshop has focussed its attention on the basic problems of small farmers and suggested some action-oriented policy for the amelioration of the socio-economic conditions of small farmers by bringing them into a group. As a result, two experimental Small Farmers Development Projects, came into operation. The experiences gained from the implementation of these projects have been helpful to extend such type of programmes in other 34 panchayats.

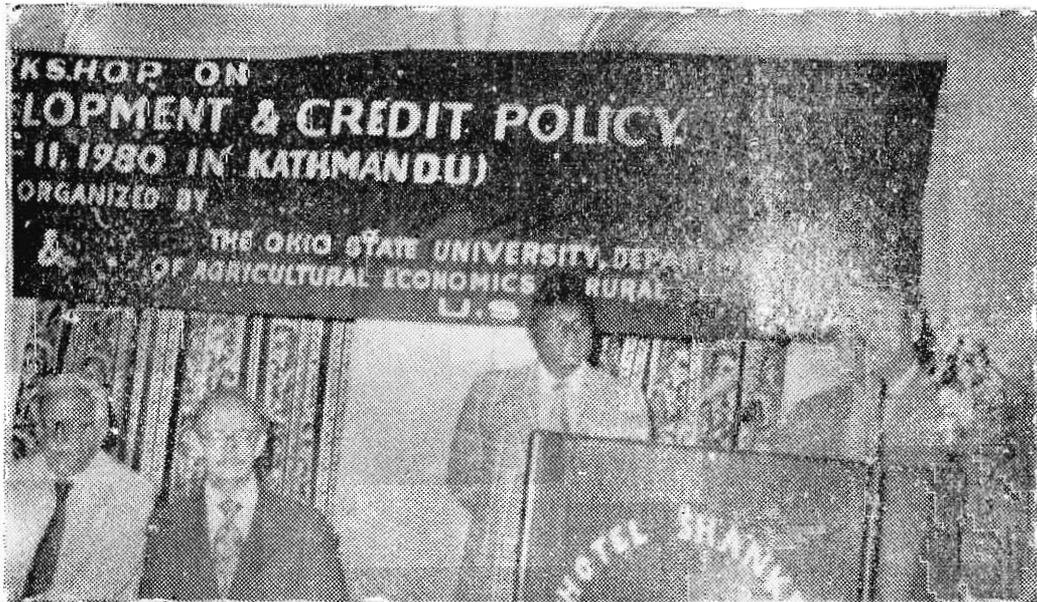
Since the main objective of this programme is to assist the rural poor in their efforts to raise their economic standard and improve their social well-being; the performances made so far by this programme have shown a favourable impact towards the fulfilment of this objective. I, therefore hope that this workshop will help His Majesty's Government by providing pragmatic recommendations and constructive suggestions for the expansion and effective implementation of the programme gradually throughout the kingdom.

I wish every success of the workshop. Now I declare this Workshop on Small Farmers Development and Credit Policy to be opened.

Thank You !



Hon'ble State Minister Mr. Bijaya Prakash Thebe inaugurating the workshop by burning "Panas Lamp" traditionally.



Hon'ble State Minister Mr. Bijaya Prakash Thebe delivering the inaugural speech on the workshop.

Chairman's Remarks



Dr. Yadav Prasad Pant
*Chairman, Economic
Commission*

Only three decades ago, economic development was treated as a synonym of industrialization. In the light of our recent experiences of development process, this view stands discredited. To day modernization and rapid growth of the agricultural sector look a better and more solid way for a developing country to initiate the process of economic and social development rather than setting up a few industries only with the help of borrowed technology and imported machinery. Even if it is being increasingly realised that the development policy should be one of integrated development of all sectors, the development of agriculture has received a topmost priority in the developing countries. However, in this process, the benefits of development have largely been derived by relatively well-to-do big farmers. While addressing this problem the World Food Conference in 1975 mentioned that governmental policies have not apparently, either by design or in resulting execution, helped the small farmers but instead have often encouraged large scale operations.

In recognition of the constraints faced by small farmers who are economically weak and numerically large, many developing countries recently have designed programmes to uplift the economic condition of this group. If economic and social development is to take place particularly in terms of employment generation, increase in grain output for growing population and provision of social equity instead of polarization of farm groups, the development of small farm sector left-behind in the process of economic development has become of economic development, has become of critical concern.

CHAIRMAN'S REMARKS

Like many developing countries, Nepal is trying to increase the growth rate, particularly by bringing improvements in the structure of agriculture and by developing appropriate institutions that help achieve increased income, employment and equity as well. The conventional approach of developing agriculture based on a trickle-down policy has not shown any favourable impact on agriculture. On the contrary, it has led to wide disparities in the income levels and levelling off of the aggregate production in recent years.

Despite substantial efforts by the Government to diffuse new technologies and improved inputs, the Nepalese farmers, in general, are reluctant to switch over to new set of production inputs and package of technology available, and suitable to their local environment including monsoon rain and terraced cultivation and the subsistence economic standards. Farmers do not prefer to risk their family survival by switching over to costly new technologies that have not been yet tried in their unirrigated farms.

Nepal started to provide developmental support under the programme of the Small Farmers Development Project in the selected villages in 1972. Such projects in total are now twentyfour. This programme, obviously, fits well into the national agricultural policy. In the country, 83 percent of the total farm households have less than 3 hectares of cultivated land, and use only 28 percent of it. The main philosophy behind the SFDP is to improve the economic status of the small farms assuming credit as a lead factor through an integrated rural development approach.

Technological break-through for increasing productivity on small scale farms is accepted now by most development planners. But to assume that new technology is available to them, and it is profitable, is the major error committed by the institutional credit planners. It is realised that profitable technology is not always available when the credit is extended. Low profitability is due to the lack of research on output increasing or cost reducing technology based on the farmer's felt needs. Hence, appropriate technology accompanied by credit is needed for developing income status of the small farms.

The small farmers, as I mentioned earlier, have low risk bearing capacity in terms of yield and price variability. Hence product as well as input price guarantee is needed from the institutional and government side. This calls for streamlining all infrastructural support system including research, extension, supplies, marketing,

credit, tenure system and so on. A multi-disciplinary approach to study the problems of the small farmers is needed to understand the complex socio-economic system of the small farmers, and devise the means of helping them.

The way the small farmer is defined also influences the contents of the small farm development policy and its target effectiveness. The SFDP for operational purpose has defined the small farmer as one who has an annual income of Rs. 950 from the agriculture and cottage industry activities. But I have a feeling that in conditions prevailing in our country this net income approach is rather ambiguous. In Nepal where the working of most of factors of production is such that no opportunity cost is involved in their use, and farm record keeping is still in infancy, the net income concept may not be a good criterion. Perhaps a satisfactory measure, as in some other developing countries, could be a farm business income approach (the difference between gross income minus variable cost of production plus land tax).

An integrated rural development approach of the SFDP in our country has shown, to some extent, favourable effects in rural areas. This approach takes care of measures required to solve a set of problems interrelated with each other. The Comilla integrated project in Bangladesh was successful because of the unimodal society where the majority of farms have more or less equally sized farm units. But similar projects in Mexico have not been very successful in integrating activities with the fabric of regular governmental services. One of the factors responsible for the poor performance has been that the research and extension of Puebla in Mexico are largely outside regular governmental channels. The IADP programme in India as an intervention strategy also has not been able to create a dynamic system for the small farmers.

Therefore, what I would like to suggest is that in designing SFDP in Nepal, care should be taken to select homogeneous groups of small farmers based on their cropping pattern. Decision making process varies from one farm to another particularly in Nepal where farmers live in isolation, without much communication in remote areas in the hills as well as in some of the Tarai regions.

Since our understanding and experiences of the Small Farmer's problems are still in an initial stage, the SFDP should not proliferate in number alone but should try to intensify the current level of programme on a more compact and coordinated basis, because of the complexity of the issues, the limited capacity of the Government in

CHAIRMAN'S REMARKS

terms of financial and skilled manpower resources and lack of political will and capability to carry out special programmes.

From what I have said, one can deduce that the Nepalese agriculture has not reached the stage where the farmers can make a productive use of credit, and thereby augment agricultural production. It is, therefore, highly necessary that the financial institutions should strive for decentralizing credit to rural areas and to make them more effective in serving the small farmer. To day, small farmers receive relatively small amount of institutional loans and in majority of cases are forced to rely on informal credit markets where real interest rates, higher than 50%, are not unusual. Therefore more attention should be given to the broader interests of the small farmers. In addition to delivering credit and other services to the small farmers through the project approach, it is also imperative that they are strengthened by creating awareness among them through group approach on a more intensive basis and provide them with credit and other services meant for their development.

As so adequately emphasized by the Hon'ble State Minister for Food and Agriculture in his inaugural address I also hope that this workshop on developing small farm development strategies as specified in its objectives, will take care of all these critical issues while developing action plans.

Finally, I express gratefulness to the organizers of the workshop for asking me to chair this inaugural session and to speak a few words relating to the small farmer development.

Strategy Of The Development Of Small Farmers Through Group Approach

-B. B. Pradhan

"The concept of economic growth as the key to national development, received a jolt, when despite two decades of development efforts, the number of the poor and hungry people in the developing world continued to rise, and the islands of modernisation stood in stark contrast to the dark seas of backwardness." Development pundits and political leaders bemoaned the neglect of social aspects of development. "The growth is not equitably reaching the poor. And the poor are not significantly contributing to growth." Mahbub ul Haq, the articulate economist of the Third World was one of the pioneers in exploding the myth of GNP growth: "We are taught to take care of our GNP as this will take care of poverty. Let us reverse this and take care of poverty, as this will take care of the GNP." In the wake of this rethinking on the development process, a bewildering array of reports, studies, resolutions appeared on the issue. All these unmistakably pointed to the imperative need for reorienting the development strategy to 'redistribution with growth.' This theme dominated the field of development both at the national and international levels in 1970s. A spate of readjustments in the development policies and priorities swept through the developing world. In the international scene the enthusiasm was more vigorous. The Second Development Decade, in contrast to the First Development Decade which had set only a quantitative goal of 5 percent overall annual rate of growth in GNP, adopted an integrated approach embracing both economic and social factors. The ILO advocated a 'basic-needs approach' to development with the aim of achieving "A certain specific minimum standard of living before the end of the century." The first concrete international action addressed to this issue 'head-on' is, however, the solemn undertaking by the World Bank, "to increase production

of small farmers so that by 1985 their output will be growing at the rate of 5 percent per year" which, it fulfilled and the momentum maintained will "double their annual output between 1985 and the end of the century." In a similar vein, there was a reappraisal of the aid policies in the donor countries with the consequent shift of their aid programmes towards projects benefitting the poor.

Alleviation of poverty thus became the focus of development in 1970s. The initial steps taken to address this issue were increased emphasis on agriculture and basic social services. There was a noticeable increase in the allocation for these sectors with considerable widening and deepening of the investment. But it was felt that this was not adequate. By mid 1970s, a comprehensive approach was developed in the form of 'integrated rural development since the population of the developing countries is predominantly rural and poverty is endemic in the countryside, the 'assault' on poverty has necessarily to be launched in the rural areas. Rural development was thus advocated as the strategy for eradicating poverty. It has been well received by most developing countries. The donors, both multi-lateral and bilateral, are enamoured of it. There is virtually a scramble among them to assist the LDCs in rural development. It seems this is not another fad in this 'fashion-prone discipline' of development. This donor interest, I believe, will not only sustain but will get reinforced in the coming years.

Except for a brief spurt of industrial venture at Biratnagar and Birgunj before the Second World War, Nepal started its development from virtually a scratch since mid 1970s after the political change in 1951. The First Five Year Plan was launched in 1956. Prior to the inception of this plan, a few development activities were in operation. Of particular relevance to our discussion here are the Tribhuvan Village Development Programme and the Rapti Valley Development Project which started in 1952. The First Plan placed great emphasis on the Village Development Programme which topped the list of sectoral programmes. It is interesting to note the statement in this context: "The Government attaches great significance and accords high priority to the Village Development Programme. Because it is through this programme that the nation will prosper with the rapid improvement in the economic conditions of the majority of the population." The conception of Village Development was a multi-sectoral one with both hardware and software components of direct relevance to the rural community. Adopting a pragmatic approach, the programme was divided into three stages: i) the minimum level called nucleous

development which caters for the improvement of existing local infrastructure and facilities like school, playground, wells, roads, etc., ii) middle level called Dehat (rural) Development which, in addition to the nucleous activities, includes provision of improved seeds and fertilizer, horticulture and livestock development, basic social services like primary school, first aid kits, drinking water etc., and finally iii) the intensive level called Village Development which, besides the middle level package incorporates soil survey, propagation of scientific farming techniques, extension of health and maternity services, cottage industries, cooperatives etc. Training of different levels of personnel required for the programme constituted an integral part of the programme.

The First Plan envisaged coverage of the whole country with nucleous programme and establishment of 34 Dehat Development and 12 village Development centres. The plan achievement was 6 nucleous, 34 Dehat Development and 12 village Development centres. The impact of this programme as noted in the second plan was, 3800 villages and 2.25 million people were benefitted. Alongside the Village Development Programme, the first plan also incorporated the area development projects. Besides continuation of the Rapti project already under implementation, two other projects were contemplated. But only the Rapti project made headway. The achievement under this project was, 5,000 families were settled and 19,000 bighas of additional land were brought into cultivation. The increase in food production was estimated at 800,000 mds. Considered in the context of the situation than prevailing, with formidable constraints in administrative and technical manpower transport and communication and so forth, the programme was both conceptually and operationally, a great success. It was no doubt a programme conceived and delivered from above. But shorn of rhetoric, most of present-day programme continues to be so. Those who were associated with the programme cannot help looking back to it with some nostalgia.

The Second Plan, while acclaiming the fulfilment of a variety of targets under the village development programme, ironically deplored the ineffectiveness of the programme which was attributed to (i) the limited coverage of the programme, (ii) the lack of people's participation, and (iii) the dichotomy between the U. S. sided and Indian sided programme. The plan adopted a different approach to village Development-politicisation of the local development process. The Panchayat, the heart of the new political set-up, was assigned the role of medium of local development and the village develop-

ment programme as such was deleted from the programme. Thus village development, a priority sector with the third highest financial allocation, 8.3 percent of the total development outlay in the first plan, fell a victim to the caprices of the politicians, technocrats and no less responsible donor agencies. Along with it the Rapti valley development project also got submerged within the respective sectoral programmes.

The Third Five Year Plan upgraded the role of the Panchayat from a minor sub-sector to a full-fledged sector. The initial success of the compulsory savings scheme generated an optimistic outlook towards mobilization of local resources. The plan, therefore, projected a considerable step-up in local development activities. But the decentralization of development administration which was vital for the implementation of the local development programme did not in fact take place. So the programme could not make much headway. Bihari K. Shrestha's remark on this problem is to the point: "The bureaucratic distaste of the departments for parting power and of the individual civil servants for being answerable to non-bureaucratic and alien institutions like panchayats also certainly played its role." Various alternatives have been tried in the field of decentralization but yet to no avail. The present model, district administration plan, which is conceptually and operationally a sound institutional arrangement is not yet fully operational. "Even after many years of the passage of the plan, it still remains to be fully operational." remarks Shrestha. Perhaps chastened by the poor performance in the Panchayat sector, the Fourth Five Year Plan allocated for this sector a much lower amount compared to the Third Plan allocation, both in absolute and percentage terms-20 million rupees of government grant as against 40 million and projection of 100 million rupees of local resources generation as against 200 million in the Third Plan. The Fourth Plan, however initiated a new concept on Regional Development - the north-south growth Axes and Growth Centres along the Axes. It has some bearing on the local development process. Also two projects of local development import were started during the Fourth Plan. Despite some of these initiatives, the Fourth Plan did deemphasize the local development programme and moved more towards the sectoral programmes.

The Fifth Plan was a 'turning point' in the development process of Nepal. Physical infrastructure which dominated the earlier plans was deemphasized for the first time with the agricultural sector and the social sector

receiving the first and second priority in financial allocation. Maximization of output consistent with the minimum felt-needs of the people was the declared objectives. Married to this objective was the strategy of maximum utilization of manpower for the spread of benefits. Local development, through the medium of the panchayat, received great emphasis. A variety of programmes were incorporated under the panchayat sector. In addition to the two ongoing projects (Jiri multi-purpose development and Remote areas development projects), Rasuwa-Nuwakot Integrated Rural Development Projects, Regional Intensive Development Programme (formerly known as SADP), Hills Transport Development Project were incorporated. Meanwhile four more IRDP, not envisaged in the plan, have been launched. Small Farmers Development Project is an addition to this family. It was not also envisaged in the Fifth Plan, nevertheless it was introduced as an experimental project. With such a multiplicity of the local development programmes already in operation, what was the need for yet another type of project, the SFDP? Is it just another version of rural development confounding the already confused rural development sector? To answer this question it is necessary to look into the concept and design of these various programmes. Let us review them briefly.

1. Local Development Department Projects (LDDP):

LDD projects are primarily small self-help schemes undertaken by district and village panchayats with local resources in the form of voluntary labour, cash and kind contribution from the local people supplemented with the grants from the LDD. The project selection and implementation under this programme is primarily in the hands of the respective panchayats with the occasional technical support from the line agencies where necessary. This is the only programme which, in effect, is controlled by the panchayat. In a sense it is the development content of the panchayat system.

2. Remote Area Development Programme:

This programme is addressed to the sparsely populated remote northern areas which, in the ordinary course of development, will be always left behind. There is a committee to administer this programme. It invites, often through personnel contact with the people in the areas, suitable projects, scrutinise them and approves them for implementation. The LDD then get them implemented through the local panchayats. It is more a social than an economic programme.

3. Hill Transport Development Project:

As the name itself suggests, it confines to construction and improvement of tracks and trails, according to the local needs. It is a product of the World Food Programme aid. Provision of work is the primary objective of this project, construction being just a consequential activity. The labourers are paid in food items. There is a committee within the LDD set-up to administer the project. The committee makes the project selection and the LDD shoulders the responsibility for the execution.

4. Regional Intensive Development Programme:

This programme, originally called Small Area Development Programme was designed to implement the Regional Development strategy conceived in the Fourth Plan. Twenty small areas were located along the four 'Growth Axes' with potentialities for growth. It was planned to concentrate investment in these 'Growth Centres' in order to "Achieve full economics of scale and encourage agglomeration economies" with their spread effects thus distorting the very basis of the strategy. With this fundamental revision in its concept and the multi-sectoral package (agriculture, forest, cottage industry, health, education, cooperatives, etc.) in its content, the programme—became just another version of integrated rural development on a district basis. Resource constraints came in the way of expansion of the programme as stipulated in the Plan; it has, therefore, been limited to the districts where the programme had been started. This programme is directed by a high level committee headed by the Minister of Home and Panchayat and is implemented in accordance with the District Administration Plan.

5. Integrated Hill Development Project:

The concept underlying this project is to make optimum use of the road as it is built. The project thus covers areas within one day's walk from the Lamosangu-Jiri Road now under construction. It is, in essence, an integrated rural development project. The difference lies on the organizational structure and the direct linkage with the road infrastructure. This project, unlike other local development projects, is under the Ministry of Agriculture. The organisational design of this project is that it has enlisted in the field, cooperation of local leaders (volunteers) named Tuki who are trained in and used for agricultural extension, with

community health and education also claiming some of their time. Each Tuki operates in 'Intensive Agricultural Centre' which serves its influence area comprising 16 to 145 households. The Tuki assesses the needs of the areas, and planning of the project is done at the service centre on that basis. The help of the village panchayats are generally enlisted in this exercise. These micro-plans are then put together and coordinated into an integrated annual plan. The central coordination committee approves the plan which is then submitted for budgetary approval. It may be noted here that the Tuki, the most important agent in the Project, generally belongs to the existing local leaders who come from the upper social strata.

6. Integrated Rural Development Programme:

Rasuwa-Nuwakot Project was the first project of this kind. Three more projects have gone into operation-Koshi Hill Area Rural Development Project, Sagarmatha IRDP and Mahakali IRDP. Rapti IRDP and Karnali-Bheri IRDP, though still under preparation, have made a start on what is called an interim basis. Thus investmentwise and area coveragewise IRDP occupies a very important place in the development plan of Nepal (see Annex 1). Let us take Rasuwa-Nuwakot Project for a look into the concept and design of IRDP. The Rasuwa-Nuwakot Project is "to support HMG development strategy which seeks to balance economic growth with income distribution, provide for more equitable regional development and ensure productive benefits from previous road investments. This would be brought about by increased agricultural and livestock production by the provision of health services and village water supplies and improvement of communications and cottage industries, all reflecting the needs of the people living in the project area." The Project is supposed to benefit 85 percent of the farm families in the project area from agricultural, irrigation and livestock development under the project. It is claimed in the Appraisal Report that "In arriving at the final concept and content of the proposed project, due consideration has been given to the different ethnic and sociological background of project farmers, their expressed needs and attitudes towards change." Measures Proposed to take care of these ethnic and social factors are: "(a) decentralization of government services to sub-centres so as to ensure equal and more effective coverage of all project residents; (b) provision of training centres, so located as to cover both major ethnic groups; (c) encouragement for the more effective

development of the Panchayat system to allow greater participation in project development." Notwithstanding these provisions, "the project continues as if it were addressed to an economically homogeneous population."

The essential features of the project administration are a Project Coordination Committee under the chairmanship of Home and Panchayat Secretary with representation from all concerned line departments, and the Project Coordinator who has no executive functions but nevertheless plays a vital role in assisting the district agencies in planning and plan implementation, establishing liaison with line departments and monitoring the progress and impact of the project. It provides for administrative sub-centres, 5 in Nuwakot and 3 in Rasuwa with, among other things, facilities for treatment of farm animals, vaccine, storage and office accommodation for agricultural, veterinary, credit, local government and other district staff. The project is implemented basically according to District Administrative Plan. However, since the DAP itself is not fully operational, there is a lack of genuine participation at the local level. The programme, in essence, follows a top-down process, orientated of course to the local needs and aspirations.

With such an array of the existing programmes and more in the offing, a reassessment of the approach to rural development was overdue. A meeting of the local representatives of Nepal Aid Group Members was convened by the Ministry of Finance in February 1978. Out of its deliberations came a "Strategy for Rural Development." The basic features of this strategy are: 1) "Involvement of the people" in the development process; 2) "Basic Needs" orientation in project components; and 3) "Planning with reference to micro-conditions". It stressed on an integrated approach and on elimination of intra-regional and inter-personal differences along-side inter-regional disparities. On the institutional side, it sought to utilize the District Administrative Plan and the Sajha Movements as the medium for development. "The Sajha Movement should be incorporated where possible as the means of channeling basic inputs to development projects", the strategy points out. While it recognised the need for "a separate administrative body at a higher level to implement and coordinate various activities", the strategy recommended, for the time being, a Project Coordinating Committee at the Centre, in line with the set-up under the Rasuwa-Nuwakot IRDP. It was in fact an endorsement of the Rasuwa-Nuwakot IRDP model.

The above strategy did fill a gap of a national approach. A multi-

sectoral programme such as rural development when integrated with the political Process is bound to contain some incongruities. There are no doubt some organizational lapses in the strategy. On this ground and more on fundamental issues, there was a thorough re-examination of the concept and approach by the government. Consequently a new concept, 'Integrated Panchayat Development Design' was born in November 1978.

The main thrust of the 'Design' is the development of village and district panchayats as the institutions for rural development. "Panchayatization of Rural Development Programme" has been declared as a major policy. The 'Design' lays great emphasis on the institutional aspect, in terms of both quantity and quality. Besides a cabinet, sub-committee for policy matters, a high level central coordination committee to be chaired by the Minister for Home and Panchayat has been provided for. There are a host of committees at different levels. The most substantive provision is the "Service Centre," nine in each district with a Panchayat Supervisor as the Coordinator. The main function of the Centre is to help the Village Panchayats within its jurisdiction in planning and implementation and to organise necessary training. There is to be considerable strengthening of the District Panchayat and Village Panchayat organization, the line agencies providing the necessary 'technical, material and administrative support'. A strong institutional set-up right from the top to down has been envisaged under the 'Design'. As for the project components, they are essentially the IRDP package.

The 'Design', as its title 'Integrated Panchayat Development Design' suggests, is no doubt politically biased. The process of rural development presupposes a change in the socio-politico-economic power structure. Hence emphasis on the political aspect is not unwarranted. It is good that there is no ambiguity about it.

The weakness of this 'Design' is that it has not adequately addressed to the nagging issues—the luke-warm support of the line agencies, the lip service to the District Administration Plan, the inherent contradictions in the Panchayat system due to the social and economic stratifications in the Nepalese society. The "Design" was forthright in pinpointing the shortcomings of the existing programmes. Commenting on the people's participation in the current programmes, it says: "There is very little room for the people to participate in the identification of the needs or in plan formulation itself".

In regard to the 'distributional aspect of the present programmes, the Design has made this remark: "Considering the nature of economic and social stratification characterising Nepaleese Society, these development programmes are neither addressed to any specific target population nor have the necessary policy or organizational instrumentalities to bring the fruits of development within their reach". How has the 'Design' addressed to these vital issues? A very simple solution has been put forth killing two birds with one stone: "In order to ensure that the projects benefit the greatest number of people, authority for final decision making in regard to them (the projects) is vested with the Village Assembly at the village level and the District Assembly at the district level. Under such an arrangement it is more likely that resources to be mobilised and allocated for village development will directly benefit the majority of the people in the villages, particularly the underprivileged. Further more attempts will be made through regular monitoring and evaluation, to cause the benefits of development to be distributed more widely to the poor". This is a naive assumption. If the participative and distributive process could be as simple as that, Nepal would not have been in this miserable state.

The 'Design' has excellently diagnosed the disease but could not come up with the effective remedies. And there are no simple remedies either. Without necessary political will, the disease cannot be cured. These shortcomings notwithstanding the 'Design' is a well articulated concept and approach to rural development. It provides a national framework for this sector.

While the 'Design' was approved as far back as November 1978, its adoption is moving rather haltingly, the inertia of the existing arrangements, the grudging acceptance by the aid donors and some difference of views at the policy level impeding the transition. It is now catching up and will perhaps have the full coverage by the end of this fiscal year.

The foregoing gives in brief the background of the current situation with regard to the rural development sector. Two programmes stand out among them-the LDDP and the IRDP. We have to examine them critically in order to find an answer to the question before us.

The LDDP is the economic counterpart of the existing political system. It is committed to bring about sustained development of the community

through the medium of the panchayat system. It is a national programme covering the whole country and embracing the entire population. It entertains no specific target, peoplewise or areawise. Wedded to the political system, its effectiveness and success is naturally linked up with that of the panchayat system in general and the local political leaders in particular. To the extent the present political set-up, there allows is real participation of the local political hierarchy in the conduct of this programme, which could not be said of other programmes, despite their profession of popular participation. Implementation of this programme is carried out in accordance with the D.A.P. with L.D.D. as the central administering agency, While it has been faltering in many a project. D.A.P. has been reasonably effective in this programme. There are reasons for this success. Since the local resources constitute a significant input and the government grant, whatever it goes direct to the District Panchayat and through it to the Village Panchayat, there is no bottleneck in the financial flow. Further the projects are too small to cause apprehension among the line agencies.

Self-reliance being one major objective, voluntary local contribution in cash, kind and labour is an essential feature of this programme (there is unfortunately a noticeable trend of erosion in this resource). Panchayat Development Land Tax (PDLT) is a potential source of local source of local resources for this programme. In a couple of panchayats in Jhapa, where it has long been effective on an experimental basis, it is a remarkable success. An attempt was made in 1978 to top this source in a bigger scale for augmenting local resources. Unfortunately there was a backlash and it was aborted. Since this programme is financed essentially with domestic resources, with limited foreign input from UNICEF, volunteer services and similar agencies, the financial resources base is narrow and with a national coverage, it is therefore thinly spread out.

The Integrated Rural Development Programme though not new to Nepal, is essentially product of external initiative and dispensation. It is therefore, appropriate to examine its concept in that setting. The World Bank was the leader in propagating this programme, so let us see its thinking on this subject. In its Sector Policy Paper, rural development has been defined as "a strategy designed to improve the economic and social life of a specific group of people-the rural poor. It involves extending the benefits of development to the poorest among those who seek a livelihood in the rural areas. The group includes small farmers, tenants and the landless."

The paper goes on, "Operationally, this concept of rural development requires that target groups be specified among the rural poor, for whom specific measures to raise production and income can be designed and in whose case the resulting flow of benefits-direct and indirect-is both identifiable and potentially measurable". The other characteristic which has been stressed is decentralization and participation at the local level: "Also important is the need to involve local people in planning, in making decision and in implementation". The importance of inter mediaries has been emphasized too: "The establishment of effective, group organizations, such as farmers' association and cooperatives, should have high priority". These are no doubt ideal features of rural development. But what do we find in practice: On the "target groups" aspect, the illustration of the Rasuwa-Nuwakot Project has been already given. It is not just an isolated example. An evaluation report on 18 rural development projects in Africa states: "The appraisal reports for the projects reviewed for this paper implicitly assumed that there was no differentiation or stratification among the rural poor, all families being equally poor. However, several people interviewed by OED, as well as some reports on African agriculture, have stated or suggested that the relatively better off farmers and village families are more readily prepared to participate in the project."

The concept of rural development envisaged by the Asian Development Bank is in essence, not much different from that of the World Bank. It also lays stress on the distributional aspect: "the emphasis in the poorer countries should be on achieving a substantial distributional impact in addition to growth." It has, however, adopted a more down-to-earth approach in regard to the 'target groups'. The Sector Paper cautions: "The Bank should be realistic about its ability to concentrate projects benefits in the hands of particular target group such as small/marginal farmers and landless workers. It should not be preoccupied with trying to design projects exclusively to meet the needs of these people-for such projects will very likely fail. The essential requirement is that the majority of beneficiaries of Bank-assisted agriculture and rural development projects should be from these relatively disadvantaged groups". In the Sagarmatha IRDP financed by it, this very approach has been adopted. While 'reduction of income disparities' constitutes one important objective, the benefits' flow has been envisaged this way, "whereas all farmers may not fully participate in the Project, the majority would benefit directly from the Project". A very simplistic assumption has been made in respect of the majority participation. "The active involvement of Village Panchayats and cooperatives will provide a base for

diffusion of economic activities in favour of the rural poor”.

Credit and inputs supply is a very important component of any rural development programme. Nepal has evolved its own institution, called the Sajha, for this purpose. This was formed in 1976 by converting the existing cooperative organization. The Land Reform Saving Organization was subsequently (1979) merged into it. It is a multi-purpose institution handling both credit and other inputs. The significant feature of this institution is that the local panchayat members are ex-officio of the executive board and obviously they influence its operation. This organization was started with great zeal. The enthusiasm has since very much flagged. The figures of delinquency indicate it is not in a healthy state, the main reason being the withdrawal of the management support by the Agricultural Development Bank and the politicisation of the executive board. Since it is mandatory for the development agencies to use this medium, wherever possible, the rural development programmes have to depend primarily on this institution for delivery of the credit and other inputs. One hopeful feature of institution is that the amalgamation of the Land Reform Saving Corporation has inducted a large number of rural household including small farmers into its memberships. This may facilitate it in becoming a participatory organization in due course. At the moment, it is just a 'Standard' cooperative organization.

What are the implications of the on-going programmes vis-a-vis the small farmer? It is clear from the above observation that none of the programmes has addressed to the issue of the social and economic stratification of the Nepalese society in a meaningful way. There is the implicit assumption that as broad-based as the Panchayat system is, all sections of the society have ample scope for participation in the system and, through it, in the development process. It is too simplistic an assumption. The long tradition of feudalistic exploitation cannot be just wished away. The Panchayats are dominated by the rich in the society. It may be noted that in Nepal the social and economic stratifications more or less overlap with consequent reinforcement of the power structure. The rural leaders are therefore, formidable. The local development programme, when decided at the local, is virtually dictated by them. Hence, people's participation in decision making and benefit sharing which is professed in every project of this nature is in the present context, just wishful thinking. It may be of interest here to note the observation of a prominent Indian economist on the Indian situation: "The rural rich

hold political and economic sway. They preempt the rural credit. They demand subsidies. Fertilizer, seeds, water and electricity must be given below costs. All this is done in the name of the rural poor who have no staying power. The slogan of rural development is a convenient cover to satisfy the greed of the rural rich and to sustain the exploitation of the vast multitude of the rural poor". The Nepalese society may not be as skewed as the Indian counterpart. But the difference is only in the degree. It is better we acknowledge this fact, unpalatable though it is.

People's participation has another meaning which needs some mention here. That is so-called voluntary contribution of labour. It is an integral feature of the Local Development Department Programme. In the Nepalese context this is perhaps the most common connotation. In this sense, of course, there is sample participation by the rural poor, the better-off farmers playing the mobilising role. While the use of idle manpower cannot be decried, its indiscriminate use and equity aspects leave much to be desired. The rural poor bear the brunt of this kind of participation.

The weaknesses of the current rural development programme noted above are but the reflections of the existing socio-economic structure. "The character and methods of rural development were directly proportional to the commitments of the political leaders", the Round Table on Adaptation of Administration to Rural Development in India has observed. Only a strong political commitment can alter the situation. It will be naive to expect a project to correct this malady. These shortcomings notwithstanding, the trickle-down effects of these programmes are definitely much more substantive and pervasive than those of capital-intensive infrastructure development. In the development process of Nepal, rural development has an important place. It is heartening to see increasing priority being given to this sector.

Short of a radical approach, what then can be done to better look after the interests of the poorer section of the rural community? This brings us to the theme of this paper. "Small Farmers Development Project" came up as an answer to this baffling problem. The concept of this project discards the myth of harmonious development of a stratified society. It undersources the fact that as individuals, the small farmers are weak and exploited; however, if they can be helped to acquire a 'group-personality', they can assert their voice and exert their influence in the community. Such a group has necessarily

to be homogeneous and voluntary association. And there should be certain social and economic activities of common interest to hold them together. A homogeneous functional group is the basic tenet of SFDP.

In the mid 1970s as stated earlier, the international and the national agencies in the field of development were desperately searching for ways and means of addressing to the poor and deprived. In this milieu FAO/Asian Survey on Agrarian Reform and Rural Development adopted a novel approach of organising multi-level, multi-agency and multi-disciplinary field workshops with the participation of the small farmers in a number of Asian countries. In Nepal it was held under the joint auspices of Ministry of Food, Agriculture and Irrigation, Ministry of Land Reform and Agriculture Development Bank in January 1974.

The objectives of the workshop was, through the process of the discussion of local problems relating to small farmers, to "(i) propose early action for improvements and adjustment in the ongoing programmes in specific areas, so as to bring the benefits to small farmers; (ii) recommend the institutional structure and policies that would facilitate active involvement of small farmers in their development process; (iii) indicate special field action projects for small farmers development; and (iv) explore possibilities of future regional cooperation and action". It submitted a comprehensive list of recommendations covering the entire agricultural sector including land reforms. The initiation of Field Action Project, one each in Dhanusha and Nuwakot was one of them. In pursuance of this recommendation, Small Farmers Development Project was initiated in September 1975 in Sakhuwa and Hariharpur Panchayats in Dhanusha and in March 1976 in Tupche and Karkimanakamana in Nuwakot by the Agricultural Development Bank with the support from FAO/ASARRD. Meanwhile the ADB has extended the project to 32 more Panchayats in 22 districts.

Before going further into this subject, let us take a look at the profile of the rural poor in Nepal. The rural population constitutes 95% of the Nepalese population. The average per capita income of the rural population is Rs. 950. as against Rs. 2094 of the urban population. On the basis of minimum subsistence level of per capital income of Rs. 720, the households and the people below the poverty line is as given here under.

Category of Household	Household below poverty line in percentage	Population below poverty line in percentage
Rural	37.33	32.89
Urban	27.58	22.20
National	35.50	32.89

The World Bank's assessment of the farm households below the poverty line shows a much higher figure. Based on a minimum subsistence income of Rs. 2750 for a farm family of 5.5 members (equivalent to that in the neighbouring Indian States of Bihar and Uttar Pradesh) at 1968/69, "Imputed net farm incomes showed that about 97% of the farm families in Hills, and about 79% in the Terai were below this line".

Another important feature of the rural economy is the profile of the land holdings. On the following assumptions, the percentage of the marginal and small farm households are 31.24 and 25.79 respectively. If the landless are excluded from the total number of households, the percentages go up to 34.85 and 28.76.

Category	Farm Size in Terai		Farm Size in Hills	
	Hectare	Bigha	Hectare	Bigha
Marginal	Below 1.02	Below 1.5	Below 0.2036	Below
Small	1.02 to 2.38	1.5 to 3.5	0.2036 to 0.5090	4 to 10
Medium	2.38 to 5.10	3.5 to 7.5	0.5090 to 1.0180	10 to 20
Large	5.10 & above	7.5 & above	1.0180 & above	20 & above

A more revealing data are to be found in the table below:

HOLDING DISTRIBUTION BY SIZE IN NEPAL

Size of Holding	Household in percentage	Area in percentage
Less than 1 hectare	68.5%	10.5%
10 hectare and above	9.8%	59.5%

While 68.5% of the households own 10.5% of the total cultivated land 9.8% household hold 59.5%. This clearly indicates a very skewed land distribution.

Under-employment is a basic malady in Nepal. It is more acute in the rural area. The following table depicts the picture,

Area	Annual average working days	Annual average utilised days	Annual average unutilised days	Percentage of under-employment
Rural	323	118	205	63.47
Urban	280	155	125	44.64

The "Household Baseline Survey" of Rasuwa and Nuwakot provides a typical description of the rural situation, albeit for those two districts. "The project area is notably heterogeneous in a number of dimensions. One aspect of this heterogeneity is the economic stratification with considerable intervillage as well as inter-household disparities. The picture that emerges is familiar, there is a large section of the population, that is comparatively disadvantaged. Their holdings are small, their alternative sources of income are limited, their nutritional standard is below or way below acceptable levels, their level of investment is low, they are less likely to use improved inputs etc." If this is the condition in the districts adjoining the capital district with all the

benefit of its spread effects, the situation in other districts, particularly the hill districts, could not be any better.

The foregoing gives an idea of the conditions of the rural population. Now let us take a look at the development service in the rural area. To be concise, only the credit supply—a very important component of the project we are talking about—will be examined. The finding of Agricultural Credit Survey on this is “Failure of institutional credit agencies to penetrate into the rural areas is not only confined to the extent of the area coverage, more than this, the lower strata of peasantry as represented by the small size group of farm families have not been able to utilise whatever support the institutions have extended. Thus far, only 9.98 percent of the farmers in the small size group have been able to get credit from institutional sources as compared to 16.11 percent of the medium size group and 48.80 percent of the large size group. Whatever institutional credit the small farmers have obtained is largely confined to ward/village committees. The other four institutional credit agencies have mostly limited their operations to the the bigger farmers”. More prignant finding is “in the case of loans from private sources, the rate was as high as 50 percent. Such higher rate of interest are charged mostly to the small farmers”. This survey dates back to 1972. Meanwhile the credit operations particularly of ADB have considerably expanded. However, the relative coverage of the small farmers has not improved—if anything, it has deteriorated because, “The bulk of ADB/N lending has been directly to farmers with the consequence that most small farmers were unable to obtain credit, either because they did not own enough land to be considered credit-worthy, or were far away from the nearest ADB-N branch”.

The above scenario clearly shows the miserable state of rural Nepal in general and still more deplorable conditions of the small farmers in particular. The Integrated Rural Development Programme with its increasing coverage is dealing with the general area development. Complementary to it is needed a programme to address specifically to the disadvantaged among the rural population. Small Farmers Development Project is a strategy devised for this purpose.

Before we proceed further, it is desirable to spell out what ‘Small Farmers’ stand for. According to the Small Farmer Development Manual, “The term, small farmers/fisherman and peasants, broadly the includis low-income producers of agricultural, livestock and aquatic products, and in particular,

refers to tenants, informal tenants such as share croppers, landless agricultural labourers and small owner-operators". The main determinants used in the identification are: (i) income, (ii) productive assets, (iii) inputs, services and marketing, and (iv) control over own affairs. In Nepal, the main criterion used is a ceiling of per capita income of Rs. 950 per annum, which happens to be the average per capita income of the rural population. The secondary criterion is land holding per family of 20 to 25 unirrigated or 10 to 15 irrigated ropanies in the hills (a hectare is equivalent to about 20 ropanies), the equivalent in the Terai being 1.5 to 2 bighas of irrigated and 2 to 4 bighas of unirrigated land (1 hectare is equivalent to about 1.5 bighas). Apart from the income and assets criteria, there are other personal attributes which are gone into while identifying the small farmer.

A brief description of the operation of this project will be given now. The first step in the process is the selection of the project area. A broad guideline has been drawn up for this purpose. Obviously a large population of the small farmers and the availability of infrastructure constitute two important requirements. In the area thus selected, the household survey and identification of the small farmer are then carried out. Next comes the group formation. A group generally consists of 12 to 15 members, the limits being 5 to 25. In organising the group, homogeneity with respect of profession, residence, work place etc. are taken into consideration. The group will then elect among themselves, a leader, a deputy leader and a treasurer. The other members are also encouraged to assume as assistant leaders, responsibility for some sub-sector such as, agriculture, veterinary, health sanitation, family planning etc. In larger groups, sub-committees are formed to look after these sub-sectors. The idea is to "distribute responsibilities and leadership among its members". The basic feature of this group organisation is that it is informal -there is no registration of the group with any government agency as in the case of the cooperatives.

It must be mentioned here that though the process of group organization is essentially based on voluntary action, there is the need for someone to initiate the process and help the small farmers until they become self-reliant. This job is entrusted to the Group Organizer/Action Research Fellow (GO/ARF). He has a very crucial role, not only in the formation of groups, more importantly in subsequent activities. He must carry the confidence of the small farmers and be able to stir them into action. He must also have

the knack to deal with the representatives of the development agencies stationed in his area and enlist their cooperation in the SFDP programme. The GO/ARF has to be a versatile person with empathy for the small farmer.

After the formation of the group, planning of activities begins. The group is helped by the GO/ARF and his associates in assessing the potentialities and working out sub-projects for individual as well as joint activities. Income-raising activities are generally given top priority. Social and community sub-projects also feature prominently. These sub-projects, particularly the latter, usually affect more than one group. In such cases the concerned groups join together to undertake them as intergroup sub-projects. The modus operandi is the group discussion and consensus-a real participator process. One essential activity of the group is the establishment of a savings fund which is to be used for extending credit to the members for their social and emergency purposes.

The implementation of the plan obviously needs various inputs from different agencies. This is where the real crux lies. Matching the receiving mechanism of the small farmers group with the delivery mechanism of these agencies is the most important goal of SFDP. One major input-credit-for individual and group activities is provided by ADB, the sponsor organisation. There is naturally not much problem in this area. As for the other inputs, the local line agencies have to be depended upon. The experience so far has demonstrated that the small farmers group, with the assistance from the GO/ARF, has been reasonably successful in receiving the inputs, both materials and services. The 'Group-Personality' has worked.

One interesting feature of the SFD is the evaluation. There is six-monthly self-evaluation of the activities by the groups and an annual participatory evaluation in which the representatives of the line agencies concerned also participate. Free and frank discussion of the problems and constraints take place in these evaluation sessions leading to constructive recommendations.

It should be mentioned here that the small farmers group is still in its infancy and needs a lot of support. The GO/ARF is no doubt the sheet anchor. But he alone cannot deliver everything. The sympathy and support of the district administration is an important factor. A committee consisting of the representatives of the concerned line agencies presided over by the Chief District Officer has been devised to oversee the project and extend

necessary support to the project.

Training is an important aspect of the project. First of all the training of the GOs and AGOs itself is of vital importance. Then comes the group leaders. The members too need some training for enhancing their effectiveness. The SFDP has an built-in training arrangement for all these needs. Training is essentially job-oriented. In fact the project could be called an action-cum-training programme. The successful projects are used as the training ground. The comprehensive nature of the small farmers training will be noted from the training activities of SFDP-Tupche, given in Annex 2.

SFDP, as mentioned earlier, started in the form of two pilot projects in late 1975 and early 1976, each project covering two panchayats, in Dhanusha and Nuwakot districts. The programme has since been extended to 32 more panchayats in 22 districts. The total number of groups involved are 564 with an average of 9 members. The total number of households covered are 5073. The details of this coverage is given in Annex 3.

On the investment side, only the figures on credit operations are available. The total credit since the inception of the project to FY 1978/79 is Rs. 74.54 million. A breakdown of the disbursement, collection and outstanding amounts is given in Annex 4. Out of about Rs. 5.6 outstanding, the overdue amount is about Rs. 0.9 million, 16 percent (this much better compared to the delinquency in the ADB operation as a whole which is about 25%). The highest investment is on livestock, claiming almost 50 percent. Cereals and cash crops account for about 10 percent. Another significant financial feature of the SFDP is the savings. The total savings upto 1978/79 amounted to Rs. 122,853, an average of Rs. 50.85 per household. Apart from this, 158 members belonging to 19 groups opened up personal savings accounts of Rs. 20,175, an average of Rs. 127.7 per member. For the people at the poverty margin these amounts are significant.

The SFDP in Nepal has been cursorily described above. A brief review of the salient features of Impact Study of SFDP (Nuwakot and Dhanusha) will throw much light on the significance of the project. The study has given comparative data on various social and economic indicators about the project farmers and the non-project farmers in the project area. The average total incomes of these two categories of farmers in Nuwakot, according to the

Survey are Rs. 61,688 (38 households) and Rs. 34,596 (28 households) respectively. (These figures do not include the value of food produced and self-consumed). The average expenditure are Rs. 61,708 and Rs. 47,095 leaving average net incomes of Rs. 0.53 and Rs. 446 per household (see Annex 5). This shows a remarkable improvement in the financial position of the project farmer. In the social scene, the achievements are most impressive. The literacy figures among the project farmers and the non-project farmers are 23% and 16% respectively, the percentages of school-going children 51% and 30%; in family planning 26% versus 14%; in sanitation 97% of the project farmers have improved latrines as against 50% of the non-project farmers. The per capital cereal consumption per year are 173 Kg. among the project farmers and 151 Kg. among the non-project farmers. The most significant indicator is the enhancement of the social status of the project farmers: "45 small farmers have been elected to the village council of these two panchayats. Similarly all of the project farmers are members of the local cooperative and 5 of them are in the Board of Directors". These figures speak adequately about the impact of the project. It is worth noting observation of a team of foreign experts assigned to evaluate the project. This is their comment: "The SFD groups have functioned exceedingly well in both economic and social terms. Family incomes have increased significantly, more employment has been generated particularly among women and youth; substantial group savings have been generated and utilized wisely for both social and economic needs of individual members; group production plans have been made, leading to the release by ADB of production credit; loan repayments have been above 90% to-date; inter-group economic enterprises have been successfully launched; a significant number of members have been democratically elected to local government bodies; groups have promoted a variety of social activities including literacy classes, improved drinking water systems, family pit-latrines and family planning. To this list must be added the 'intangible' such as self-respect, a sense of community and nation, self-reliance, release of initiative and a desire to think and plan months and even years ahead instead of living day-by-day as before". I wonder if anyone project has ever evoked such as appreciation.

The SFDP experiment has no doubt proved a success. The observation of the IFAD mission is almost flattering: "The SFDP of Nepal appears to be one of the best models of participatory rural development in South Asia. The Mission was impressed by the unusually well-designed and implemented SFDP and recommends a project that would further expand its project". The time has come to adopt this strategy on a larger scale. A project is currently

being prepared for substantial expansion-coverage of about 300 panchayats within the Sixth Plan Period (FY 1980/81-1985/86). The proposed project intends to widen and deepen the scope of activities. It is a comprehensive project well addressed to the needs of the rural poor. It would be premature to go into more details at this stage.

The SFDP is soon passing from an experimental to a full operational phase. As an experimental project, it had a separate identity and was pretty much self-contained. What should be its design now? Where is its place in the overall development process? While there is no ambiguity in its concept and approach, it has yet to be integrated into the total plan framework. It is a vital question for the future of the project. It is not a difficult question however. It is clear from the concept itself that the SFDP is essentially a strategy designed specifically for helping the rural poor to participate in the development process in their respective areas. Its present independent existence and project type make up is due to the fact that since a new strategy cannot be grafted into an ongoing project, nor could it be tested in a vacuum, there was the need for some activities for its trial. Eventually SFDP should be integrated into the rural development projects. In this way SFDP would ultimately become one of the essential strategies of rural development. The merging however be a gradual process to allow this innovative strategy to take deep roots. As for the future IRDP projects, SFDP strategy can be incorporated the project design itself. This point has been stressed in the recommendation of the Third Annual Evaluation Workshop: "It should not be seen as a complete programme in itself but rather as an approach to be incorporated in every area-based development programme. Thus it is strongly recommended that the SFDP approach should become an integral part of every agricultural and rural development programme or project in the country". It is essential to see the SFDP in this perspective in the development process in Nepal.

Now that the project is being considerably expanded, there is the danger of distortion creeping into the project concept from internal as well as external sources. First let us see the possibilities within. Excepting the sponsor organisation (ADB/N) and a few officials concerned, the SFDP strategy is little known among the HMG administration. It does not yet feature in the development plans and programmes as a strategy. In its expanded form, how it will be received at different quarters is uncertain. The strategy for helping

RURAL DEVELOPMENT PROJECTS COVERAGE AND INVESTMENT

Name of Project	Area coverage districts	Total Project Cost in Rs. '000	Effective date of agreement	Donor	Remarks
1. Rasuwa/Nuwakot IRDP	Rasuwa & Nuwakot	135,985	30 April 1977	World Bank	In full operation
2. Sagarmatha IRDP	Udaipur, Siraha, & Saptari	442,680	1 Nov. 1978	1) ADB 2) IFAD 3) EEC	Start up difficulties
3. Kaski Hill Areas RDP	Dhankuta, Terathum, Sankhuwasabha & Bhojpur.	113,068	24 Dec. 1979	U.K.	Just started
4. Mahakali IRDP	Baitadi, Dadel dhura & Darchula	161,140	15 Jan. 1980	World Bank	Yet to start.
5. Rapti IRDP	Dang, Salyan, Rukum, Rolpa & Pyuthan			US/AID	Project report in final stages meanwhile interim activities undertaken.
6. Karnali-Bheri IRDP	Surkhet, Dailekh, Jumla, Mugu, Humla, Dolpa, Kalikot, Jajarkot, Banke & Bardiya.	135,197		Canada	Project negotiations going on, meanwhile interim activities undertaken.
* 7. Lamosangu-Jiri IHDP	Dolkha and 14 panchayats of Sindhu Palchok	16,000 (2.5 million Swiss Franc)	July 1975	Switzerland	Present Agreement is due to terminate in July 1980.
		1,004,070			

Source: HMG, Ministry of Home and Panchayat.

* Ministry of Food and Agriculture.

TRAINING ACTIVITIES ON SFDP, TUPCHE

S. No.	Subject	Total No: of groups involved	Total No. of members involved
1.	Agriculture leader Training	13	13
2.	Handloom training	13	46
3.	Summer crops training	40	77
4.	Forest prevention	49	64
5.	Group leaders training	41	41
6.	Vet. service (animal health and treatment)	39	39
7.	Poultry keeping (general know-how)	23	23
8.	Vegetable	35	35
9.	Marketing system and development	30	30
10.	Soil and water conservation technology to small farmers	18	18
11.	Horticulture	35	35
12.	Fish culture	9	9

Source: Janardan Joshi-Country Paper on Small Farmers Development Programme, Nepal.

NO. GROUPS AND MEMBERS IN THE SFDP AREAS
Upto 1978/79

Name of the Project	Districts	No. of groups		Members		No. of Panchayats
		1978/79	Total	1978/79	Total	
1. Eastern Region						
a) Kakarbhitta	Jhapa	9	20	70	195	2
b) Dulari	Morang	6	14	47	116	2
c) Nakatiraypur	Saptari	4	22	-	104	2
d) Bhirgaon	Dhankuta	5	5	34	34	1
e) Bastipur	Siraha	2	2	32	32	1
		<u>26</u>	<u>63</u>	<u>183</u>	<u>431</u>	<u>8</u>
2. Mid-Region						
a) Khopasi	Kavre	9	20	100	243	3
b) Budhanilkantha	Kathmandu	-	21		227	1
c) Tupche	Nuwakot	13	52	184	399	2
d) Mahendranagar	Janakpur	2	45	71	509	2
e) Parsauni	Bara	6	18	47	157	1
f) Udaypurghurmi	Parsa	3	21	32	206	1
g) Santapur	Rautahat	19	32	155	288	1
h) Korak	Chitwan	5	17	31	143	2
i) Hariharpur	Sarlahi	3	22	39	247	2
j) Dadhikot	Bhaktapur	8	8	119	119	1
		<u>68</u>	<u>256</u>	<u>778</u>	<u>3038</u>	<u>16</u>
3. Western Region						
a) Anandaban	Rupandehi	17	34	266	383	2
b) Ramnagar	Nawalparasi	6	23	85	229	1
c) Mahendrakot	Kapilvastu	5	20	39	166	1
d) Takling	Gorkha	6	6	85	85	1
e) Kahubharam	Kaski	7	7	81	81	1
		<u>41</u>	<u>90</u>	<u>556</u>	<u>944</u>	<u>6</u>
4. Far-Western Region						
a) Chandranagar	Banke	15	15	171	171	1
b) Gadaria	Kailali	7	17	14	180	1
c) Latikoili	Surkhet	10	10	108	108	2
d) Laxmipur	Dang	13	13	151	151	2
		<u>45</u>	<u>55</u>	<u>444</u>	<u>610</u>	<u>6</u>
Grand Total:		<u>180</u>	<u>564</u>	<u>1961</u>	<u>5073</u>	<u>36</u>

Source: ADB/N.

**PURPOSEWISE LOAN DISBURSEMENT AND COLLECTION
IN THE SFDP AREAS**

From the beginning till 1978/79)

		(Rs. in '000)		
S. No.	Purpose	Disbursement	Collection	Outstanding
1.	Cereal crop production	592	351	241
2.	Cash crop production	237	82	155
3.	Farm Mechanization and irrigation	1897	336	1561
4.	Agro-business (livestock and birds)	3785	812	2973
5.	Cottage industries	373	112	261
6.	Horticulture	113	1	112
7.	Others	457	174	283
Total:		7454	1868	5586

Source: ADB/N.

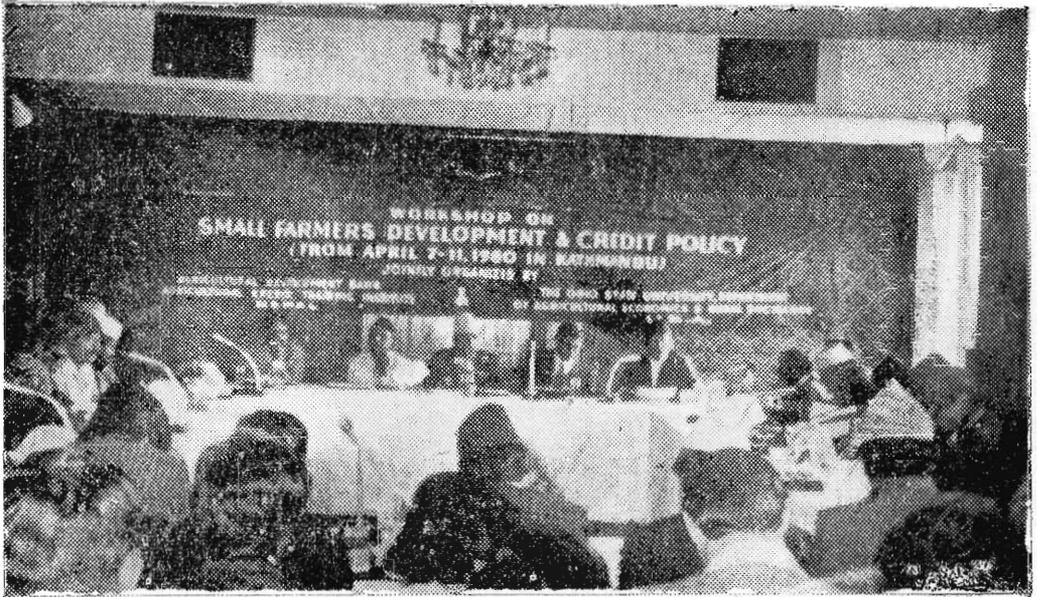
TOTAL INCOME ASSESSMENT: NUWAKOT

	Papdy (Rs.)	Maize (Rs.)	Millet (Rs.)	Wheat (Rs.)	Family labour (Rs.)	Animal labour (Rs.)	Additional income (Rs.)	Livestock (Rs.)	Total income
Project	2710	2400	1530	420	18255	660	15998	19720	61688*
Control	2700	600	360	-	10987	1380	8969	9600	34596*

* These figures do not include the value of food produced and self-consumed.

	Assessment of Total Expxpenditure				Net Income			
	Food purchased	Annual Expenditure	Cost of Cultivation	Total Ex- penditure	Total income	Total Ex- penditure	Total	Av. net income
Project (38)	9400	39304	13004	61708	61688	61708	- 20	-0.53
Control (28)	11025	24185	11886	34596	47095	47095	-12499	-446

Source : APROSC-Impact Study of SFDP (Nuwakot and Dhanusha Districts), Feb. 1979.



A scene of session in progress.



Mr. S. K. Upadhyaya, DGM of ADB|N exclusively busy with taking notes in relation to the lending activities and problems of SFDP,

Participation, Local Organization And Rural Development

-Dr. Mahesh Banskota

-Dr. Pradipto Roy

Introduction;

Participation, local organization and rural development have become three key words without which no discussion of development seems reasonable. From growth, technology and capital, this is undoubtedly a marked departure and as with all new things, they have as yet to stand the test of time. It took over two decades of hopeless mean durings through the corridors of neo-classical approaches, before serious questions began to arise. Similarly the eagerness of too many to readily jump into the PLORD band wagon does not at all suggest that a panacea is in sight. A closer scrutiny of PLORD is therefore quite appropriate. After all two to three decades have already seen a rapidly increasing number of people in absolute poverty. We certainly do not hope to repeat this experience once again.

In this paper an effort will be made to review some of these concepts their advantages and disadvantages. An effort will also be made to examine some of the available cases related the PLORD for an exploration of their weaknesses and strengths.

It will be generally agreed that despite the dethronement of growth-manship, a generally valid paradigm of development has yet to emerge. Various objectives and mechanisms have been suggested here and there, but there is as yet lacking a dominant paradigm of development that proposes to extricate masses from the vicious equilibrium of poverty. From this point of view PLORD represents a set of instruments and objectives, rather than

a new theory of development *per se*. Some of these issues will be discussed further when we deal with the prevailing concept of rural development.

Concept of Rural Development ¹

Rural incorporates a number of items. Agriculture belongs to the rural areas. Poverty is endemic in rural areas. A large part of the illiterate masses are in the rural areas. Consequently when we say rural, it is generally incorporates agricultural, very poor people who are illiterate and unorganized and under employment. Since in most developing countries this is the larger sector but on which is politically and economically a weaker sector.

All of this is generally seen as opposite of the urban and industrial which are structurally very different from the rural and agriculture. Here people are more organized, more educated, have higher levels of living and constitute a relatively small sector (in number) but strong economically and politically.

The persistence of rural mass poverty has raised serious doubts about the earlier emphasis on urban and industrial areas. Today the consensus is an increasing shift in programmes and policies towards the rural, and agricultural sectors and particularly to those groups who are at or below some poverty threshold. These are however a variety of positions as to how this emphasis on rural areas should be provided.

(a) Rural Growthmanship²

Some argue that the problem in the past was not with the growth strategy *per se*, but with its spatial bias in favour of urban and industrial areas. The new emphasis should be on promoting rural growth by providing better technology, more investment and better trained people in rural areas. All policies that had an implicit or explicit bias towards the rural sector must be dismantled. This view underscores the ineffectiveness of embracing a "soft" or neo-traditional approach (self-reliance, local technology, etc) and dismisses these as pastoral romanticism.

(b) (Employment Oriented Growth³

The focus here is primarily on agriculture, but also on an industrial structure that directly assists agriculture. It further emphasizes the importance of carefully analysing the economic behavior of rural households in terms of

selecting programmes and policies for different rural groups. It also underscores the overall importance of expanding trade and the supply of necessary commodities to increase the levels of food production in the rural areas.

(c) Basic Needs Approach⁴

This is an approach advocated by the ILO and basically says that efforts must be geared towards meeting basic needs of the poor people. While it is a very appealing position, its operational implications have yet to be explored.

(d) Collective Institutional Strategy

It is difficult to put any one name here, but a lot of literature is now emphasizing the need for a prior change in the institutional framework in terms of control every resources, access to the means of production and a say in the decision making framework⁵. While some of these issues had been identified even earlier, this position maintains that the mechanism of decision making and control in so far as resources are concerned should increasingly be under a collective framework rather than on an individual framework. There are no reasons to invoke dictatorial rules and if a collective welfare system can be developed. The significance of this approach lies primarily in the fact that poor countries lack sufficient resources to begin doing everything for everybody. These resources have to be used productively to benefit the already worse off, who also happen to predominate in numbers.

(e) Target Group Approach

This approach seeks to first identify a relatively worse off group and help them to "break out" of their poverty through a series of projects and programmes. This is probably the major direct effort made to help the poor groups, but this is also not free from problems.

First the same forces that made them a "target" group cannot be assumed away after these projects and they may revert to their old positions after support is withdrawn.

Second, how far can such a programme go in terms of embracing all the "target" groups in the country and what sort of time horizons are in mind to achieve a "detargetizing" of these people?

Equally significant have been the changes in terms of the instruments

to be used. In most of the above approaches, excepting the first one to some extent, all of them also emphasize the use of participation and local organization as far as possible. In the next section we will discuss some of these instruments of rural development.

Concept of Participation

People's participation is one of the most ever-exploited and ambiguous concepts in the armoury of development planners. Even among good practitioners, it means different things to different people. A large body of literature has grown around a variety of projects on people's participation⁶.

In its broader sense, the concept of participation reasserts the fundamental rights of every working persons in terms of economic self-determination, right to employment and right of access to certain basic social services. As the political, social and economic implications of this position will generally signal the need for major structural transformation in most developing countries the central theme of participation in decision-making has been used with a more limited view. The most common view involves participation in local projects by way of setting priorities, planning projects, implementation and evaluation of projects⁷. Even this may be a very wide interpretation as compared to others which simply state that people should be consulted on what goods and services should be provided instead of imposing them from higher ups.

Another variation of this "limited" view of participation has a spatial twist as well. It is generally felt that governments will find it politically less risky if increased participation is emphasized at lower levels than at higher levels. There is therefore a lot of talk about participation at the village level or something little higher. Another variation is with respect to different groups in the community. Undoubtedly some groups are already very active while others may be less so and still others may have been precluded altogether. In talking about participation therefore, references are invariably made to some target groups who have been unable to derive any benefits from policies and programmes implemented so far. The selection of the target groups from the strategically most extent poverty group and planning with them is the procedure that has been stressed by some.

Whatever view one is inclined to propagate, the fact that one is accepting the need for participation is probably the most significant result

of the failure of one sided growthmanship. It generally underscores the importance of involving the people in those decisions which affect their own lives.

Accepting a general premise, that we are in fact talking about participation of some specific group proceed to elicit participation. After all the very forces that operated to make them a "target" group, are still very active today. If these people could collectively put together a force that could counteract opposing forces as well as harness their collective energies for their own betterment, some solution to their object poverty may be in sight. On an individual basis however they will remain subject to the same traditional pressures that have accentuated their deprivation and consequently reduced their powers of resistance as well. This takes us to the issue of local organizations.

Role of Local Organizations

There is an increasing body of literature that has been highlighting the role of local level organizations. Uphoff and Esman's analysis of local organization in Asian countries shows a substantial relationship between measure of productivity and welfare and the extent of local organization, which they categorize as 'more' or 'less' organized⁸. Morss and others have also highlighted upon the role of local organization, based upon local participation (small farmers), in terms of farmer-resource commitment, carrying out varying risk-sharing schemes, the implementation of projects as a vehicle for encouraging and reinforcing behavioral change, as a facilitating body for the provision, integration, and administration of various delivery schemes and as mechanism through which development can be self sustaining⁹. Jou Sigurdson compares the nature of water policies in India and China and concludes that the substantial improvements in China's irrigation system has been on account of the incremental year by year changes rather than through grand projects and a political philosophy that emphasizes decentralization, mass mobilization and participation¹⁰.

It has also been argued in various places that a breakdown in local institutions could hasten the process of a "tragedy of the commons" with respect to different local natural resources. There is therefore an enormous amount of work emphasizing the role of local organizations.

This general view does not distinguish the nature and type of local

organizations. It just makes a general case that as a factor of production, as a mechanism of communal control and management, as a vehicle for maintaining information links with other organizations and, functioning as part of a delivery system, local organizations are extremely useful. They could be religious institution, non-governmental organizations, farmer's Associations. etc.

Factors Influencing Nature and Type of Local organizations

The nature of local organization and the extent to which participation is possible is significantly influenced by a variety of local and non-local factors. First, there are environmental and technical factors¹¹. The influence of ecology, population density, types of human settlements, the nature of agricultural activities-cropping systems, livestock and others-on local organizations has not been adequately understood or studied. Certain crops will be grown only if there are the necessary organizational preconditions to cope with the increased complexity of crop management. The presence or absence of irrigation could make a lot of difference to the type of local organization. Acute shortages of resources will involve rationing and control. Highly dispersed settlements make grouping very difficult in contrast to dense and compact villages.

Second, the level of development will determine the type of functions which must be carried out locally. Where marketing channels and input delivery systems are well developed, limited purpose organization may be more appropriate. In other cases, more comprehensive multifunctional organization may be needed.

Third, the nature of public policy plays a very crucial role. If the goals of public policy are vague in terms of a commitment to the development of the poorer groups, this will influence the formation of target groups organizations quite substantially. Government attitudes will also influence the nature of local leadership. Where the atmosphere is one of suspicion, it is likely to stultify all efforts to develop active local participation and organizations.

Fourth, the prevailing distribution of control over resources also significantly influence the nature of local organizations. Where resources are relatively more equitably distributed, support for local organization and

therefore compliance is likely to be more universal. In other cases, where inequality is higher, organizations are likely to be the mouthpiece of the well off group, if at all they are to be found.

Fifth, the question of outside support and linkage in more direct terms is also an important variable. It is not possible to expect local people to perform miracles in areas where central agencies have failed. There may be genuine shortages of raw materials, inappropriate and or inadequate tools and equipment. Alternatively, the levels of poverty may be so low that unless some immediate assistance is made available, these organizations may become virtually defunct, as by themselves they can do little initially.

Another point is that of socio-cultural differences. In many communities there are rigid social and religious rules and insensitivity to such factors may also render some types of multi-group organizations ineffective. This itself may not be a static phenomenon.

It is clear from the above discussion that different organizational forms have different types of flexibility and adaptability, depending upon the nature of local and non-local forces. To assume that any type of organization will be able to serve the needs of the different rural people in various environments is unacceptable even on the basis of limited number of studies about rural development.

Many of these factors have not been adequately studied for different types of rural environment. Nevertheless, it is clear that rural development projects stand a better chance of being successful with increased local participation and the involvement of local level organizations.

The above points discussed do not exhaust all the factors that are likely to hinder the growth of local participation and organizations. Let us now proceed to discuss some of the actual cases available both for Nepal and elsewhere.

Cases of Local Organization and Participation

(a) Some Cases in Asia¹²

Uphoff and Esman's analysis of local organizations in Asian countries is among the most comprehensive analysis of local organizations to date.

Different types of local organizations involved in various types of rural development activities were appraised. They found a substantial relationship between measures of productivity and welfare and the extent of local organization which they categorise as 'more' or 'less' organized.

(i) **Local Organization in Bangladesh**

The most important local organization in Bangladesh was the Thana councils under which the Union councils. The major functions of the councils were the carrying out of the provincial plans and the administration of some of the rural works programmes. These were also supported by Union multi-purpose Co-ops, but the extent of their involvement was very limited. The most notable case of Union co-op in Bangladesh was in Comilla where it played a major role in mobilising substantial degrees of self-help projects in school construction and water supply. This was however in only one district out of 17 in Bangladesh. Virtually no role was played by local organizations in resources mobilization and integration of services. This reflected the extent to which local development activities were still controlled by the center and state level governments. According to Uphoff and Esman, this was a case of 'less organized' system.

(ii) **Case of India; The Ranaghat Project¹³**

This is a second action-research project planned by the Council of Social Development (CSD) in which the YMCA, Calcutta, was to be the implementing body. The project was funded by Bread for the world, who first requested CSD to prepare a quick indicative plan. Based on the indicative plan, detailed feasibility studies were done for shallow tube-well irrigation, inland fisheries, dairy and poultry and non-formal education. This project has not been carried into full execution. Ranaghat is part of a rich delta area bordering Bangladesh about 100 kms. north of Calcutta on trunk rail and road connections.

The target group here were the landless who constitute 60 percent of the rural population of 70,000. The problem was how to transfer income-generating assets to a class of people who were not credit-worthy and at the same time increase their days of employment and earnings. The four priority projects selected were a compromise between the people's priorities and technological feasibility. Full irrigation alone would increase employment

from below 100 days to over 200 days per year. Land ownership fragmentation had become so severe that no one owned 5 hectares in one place. There are about 300 tube-wells owned by medium or large farmers and only about 20-30 percent of the land was irrigated. An additional 1,700 tube-wells were needed for full irrigation each of which would have 10-20 beneficiaries. The legal registration of 1,700 co-operatives would be a formidable paperwork feat and would only benefit land owners. Hence, 40 village level tube-well co-operatives owned by the landless selling water at the existing rates seemed organizationally most feasible as it met the need for social justice and also maximized employment.

The feasibility studies were done at the same time as conscientization meetings of poverty groups and many of the operational details were due to the poorer people's suggestions. The CSD and the YMCA learned a great deal about the conditions of poverty while initiating and operating 10-12 non-formal education classes in the surrounding villages. Village boys collected most of the simplified questionnaire data from all the 12,000 households. The research and planning process involved both the poorer people, and the elected officials and bureaucracy right from the beginning.

(iii) Cases in Nepal¹⁴

(a) The Small Farmer's Development Programme

This is an approach to deal with the problems of the disadvantaged, through specific programmes. This was started in 1977 to encourage collective action by the poor in applying for credit, purchase of inputs, some agricultural operation, and sale of outputs on a limited scale in a few localities. Such applications do not require security other than a joint statement of intent.

The degree of ingenuity enthusiasm and cooperation shown by the participants using tiny amounts of resources is reportedly great. This scheme seeks to fulfil basic needs by providing the opportunities for cooperative action, full participation and increased productivity. Bank involvement has reported almost full recovery of loans, something that cannot be said of their other programmes with richer farmers.

(b) Case of Suspension Bridges in Banglung

This has turned out to be one of the most notable cases of people's participation, able leadership and local organization. Within a very

short period using nominal resources people harnessed their abilities (labors, local technology, management) to construct a record number of suspension bridges.

(iv) Taiwan Local Organization

Taiwan's local organization consisting of the Township Office and the Farmer's Association and Irrigation Association have been discussed as among the most successful cases of local organization. The Farmer's Association plays a key role in the provision of services and this is limited just to the members of the organization. The local Township office is able to influence planning and goal setting and is engaged in some degree of resource mobilization for providing some services to the people. The Farmer's Association hire their own extension agent, which is something quite unique in terms of most local organizations in Asia.

(v) Case of Ceylon

Ceylon is also reported to have a fairly effective local organization system. Local government units consists of the district Development Council, the Division Development Committee and village councils. There are also co-ops and rural development societies. The associational organizations have been found to play a very active role, particularly the Cultivation Committee for collecting irrigation fees and integrating the various services in rural areas.

Both Ceylon Taiwan are 'more organized' according to Uphoff and Esman's analysis.

In general terms the more organized cases had higher levels of productivity in terms of yields per unit of land, changing average yield over a 20 year period and per capita agricultural production. Since yields are to be a large measure related to the type of technology, more organized cases also exhibited more technological innovation. Both unemployment and underemployment were found to be lower in the more organized cases. Income distribution and rural welfare were also consistently higher in the more organized cases.

There is no doubt of the role played by local organization in terms of improving rural conditions. However, rural organizations themselves are shaped and moulded by so many other factors, that the process of arriving at an effective system of local organization seem to be crucial if the lesson

of the more organized cases are to be used for other area.

(b) Some Cases in Africa¹⁵

Lele provides a more general analysis of some of the rural development programmes and their organizational characteristics in Africa. Unlike Uphoff and Esman's analysis, this study looks at rural development in a much broader perspective and does not relate the outcomes of the programmes with the nature of local organizations. Furthermore in most of the cases in Asia, the type of local organizations discussed were those found across a fairly wide part of the country. Lele's analysis however looks at more specific programme oriented projects, possibly with the exception of Ujamaa Village in Tanzania. However some of the issues she raises are quite similar.

(i) Special Rural Development Programme, Kenya

The Special Rural Development programme was undertaken with the objective of improving institutional capability and self reliance in rural areas. It covered six areas and almost eight percent of the people. The program's success both in terms of its impact on income, productivity and welfare as well as the institutionalisation of rural development capacities were very limited. The Center failed to accord the necessary amount of prestige to the programme. Much of the administrative hurdles were left intact and in general there was a marked unwillingness on the part of the center to delegate authority.

In terms of local involvement in the formulation and management of the project, this was practically non-existent. Since large amounts of foreign aid were made available for the project, little effort seems to have been made in terms of local resource mobilization. The programme was not implemented fully in all the six areas.

(ii) Rural Development Administration in Tanzania

The Tanzanian effort under the Ujamaa village represents one of those important cases with a high degree of national commitment and willingness on the part of the center to develop decentralised and participatory administration. Both the regional administration and the party have been delegated authority for rural development planning. Although the case is still quite new, Lele points out that more effort and resources are going into providing social services than resource mobilisation and productivity increasing activities.

This seems to be quite important in view of the growing food shortages within Tanzania.

Although Lele's major concern was with the nature of rural development programmes, she also emphasizes the role of local organizations in order to be effective in rural development. She identifies institutional development and a certain minimum level of services as crucial for broad-based increases in productivity.



Footnotes:-

1. For a recent review of the thinking in Rural Development see Eddy Lee, "Changing Approaches to Rural Development in International Labour Reviews, Vol. 119, No. 1, 1980, pp. 103-4.
2. Micheal Lipton, *Why Poor People Stay Poor*, Cambridge, Mass: Harvard University Press, 1977.
3. John Mellor, *The New Economics of Growth*, Ithaca, New York: Cornell University Press, 1976.
4. ILO: *Employment, Growth and Basic Needs: A One-World Problems*, Geneva, 1976.
5. See *Development Dialogue*, Vol. No. 19.
6. For an exhaustive treatment see John M. Cohen and Norman T. Uphoff, *Rural Development Participation: Concepts and Measures for Project Design, Implementation and Evaluation*, Cornell University, Rural Development Committee, Rural Development Monograph No. 2. Jan 1977.
7. Ibid.
8. N. T. Uphoff and Esman, *Local Organization for Rural Development in Asia*. Ithaca, New York: Rural Development Committee, Center for International Studies, Cornell University. 1975.
9. E. R. Morss, et. al., *Strategies for Small Farmer Development: An Empirical Study of Rural Development Project in Gambia, Ghana, Keeya, Lesatho, Nigeria, Bolivia, Columbia, Mexico, Paraguay and Peru*. Boulder, Colorado: West View Press, 1976.
10. Jon Snguradson, "Water Policies in India and China" in *Ambio* Vol. VI, No. II, 1977, pp. 70-76.
11. G. Hunter, *The Implementation of Agricultural Development Policies: Organization, Management and Institutions*: London, Overseas Development Institute L+D, 1974.
12. Excepting the Cases for India and Nepal, See N. T. Uphoff and Milton Esman, *Local Organization for Rural Development in Asia*, Ithaca, New, York: Rural Development Committee, CIS, Cornell University, 1975.
13. See CSD Report.
14. See Evaluation by APROSC for the first case entitled *Impact Study of Small Farmer Development Project (Nuwakot and Dhanusha District)*, APROSC Feb, 1979. For the second case, See P. P. Pradhan's forthcoming publication on People's Participation, This brief statement is based upon his talk to the CEDA faculty recently.
15. U. Lele, *The Design of Rural Development*, Baltimore: John Hopkins University Press, 1975.

Institutional Requirement For Rural Development Nepal

-Kul Shekhar Sharma

In Nepal, rural development would necessarily mean the development of small farmers who comprise two-thirds of the total farm population in the country. These are the people who have more or less been left unaffected by the process of economic growth. This may have been largely due to the difficulty as well as the cost in reaching them, and also because of the inability of the poorest sections of the rural community to make use of the services offered by the Government owing to their weak social and economic position and their unorganized condition. A lack of interest or determined will on the part of the Government has perhaps been another important reason. The main beneficiaries of rural infrastructure, credit, extension and other services provided by the Government have largely been the rural elites who by their education, social status and economic condition were better equipped to utilize these services.

In Nepal, the percentage of population depending on agriculture is one of the largest in the world i. e. 96 percent, while it contributes only 65 percent to the GNP. Among the total rural population of 13.3 million estimated for 1980, 64% belong to nearly 1.4 million small farm families. Of these, almost half are marginal farm families operating only on 8 percent of the total cultivated area, and having an average holding of 0.47 hectares per family.

In rural areas, the extent of un/underemployment has been estimated to add up to 4.7 million unemployed persons. It has been estimated that additional employment will be needed for more than 0.26 million persons

every year in rural areas. On the income side, 49.24 percent of rural families have an annual income of less than Rs. 3500 per year, their total share being only 11.8 percent of the total rural income. Persons in the lowest 33% of the income bracket earn only 5.8% of the total income. The percentage of non-farm income to the total income is 42% for marginal-farm families and 17% for small-farm families.

About 36% farm families in rural areas are suspected to be living below subsistence level of expenditure calculated on the basis of minimum nutritional requirements and actual consumption expenditure on other basic necessities of life.

This gives a broad indication of the magnitude of problems that the planners of rural development have to encounter. Since the target of rural development is man and not merely an increase in production (though it is also very important) it transcends a particular sector and encompasses all sectors which can contribute in the fulfilment of basic needs for rural poor. Basic to any planning for rural development would be the creation of appropriate institutions which can effectively deliver the needed services to the rural people. Encouraging participation in the utilization of these services and in taking new initiatives would also be essential if the process of rural development is to be self-sustaining.

The following are the broad categories of tasks which will have to be undertaken as parts of a strategy of rural development in Nepal:

- a) **Increasing productivity in the farm-** This has to be done by enabling the farmer to make improvements in his farm by introducing better irrigation methods, levelling, fencing, drainage, etc. and also by encouraging him to make better use of his land through more intensive cropping, more appropriate rotation of crops, better farming methods and greater use of inputs like fertilizer, improved seeds and insecticides. He has also to be provided with adequate credit and technical assistance to make it possible for him to carry out these activities and improvements. Assistance has also to be provided to him in starting other activities relating to farm e.g. poultry, piggery, dairy, fish farming etc. This will increase employment and augment his income considerably.

- b) **Providing gainful employment during spare time**-In view of the smallness of the holdings of the marginal farmer, it is not possible for him to meet his basic needs only by increasing or improving his farm activities. He needs substantial additional employment to generate more income. A study made by the Planning Commission in 1977 has revealed that 63 percent man days available for work in rural areas remain unutilised. The smaller the size of the holding, the larger is the number of man days unemployed. As such, finding additional employment is crucial for the development of small farmers. No in-depth study has been made yet about the number of man days employed in different sizes of the farm and in different geographical areas. Nor have there been estimates about the optimum number of additional days of employment which can be created in different sizes or categories of farms by irrigation facilities and improved farming methods. Careful field studies need be undertaken on this subject as early as possible. This is crucial to determine the extent of employment outside the farm which different types of farm families will need. Equally important is the knowledge about the period of time and season when surplus labour is available for deployment outside the farm. The crux of the problem is to provide opportunities for employment to the small farmers at a time when they have nothing to do in their own farms. Plans for the expansion of cottage industries, construction of rural infra-structure and other local developmental activities will provide such opportunities. These will be dealt with later in this paper again.
- c) **Improving Conditions of Living**-Since fulfilment of basic human needs is the most immediate objective of all efforts of development, it is essential that the small farmers be provided better housing as well as better education and health services. If any degree of success is to be achieved in providing these services, an all-out effort must be made to introduce family planning program as possible.

Appropriate policies and institutions are required to accomplish the objective of providing these services to them.

In view of the magnitude of the tasks to be undertaken there is hope

for progress only when rural development is made one of the main economic objectives of the Government. The foremost institutional requirement, therefore, is a Government having a deep commitment to rural development and especially the development of small farmers. This commitment is likely to be translated into action only when interests of the government are integrally linked with those of the rural poor. Without this no institutions created for rural development would be effective. Nor would any organization meant to encourage initiative among the small farmers or secure their interests likely to be permitted by the Government. Appropriate policies for rural development may be difficult to follow. And, the programme for the development of small farmers is likely to be confined to a few experimental green house projects. Superficial show of support and patronage by the Government of the initiative and efforts of a handful of enlightened bureaucrats would, however, not make a dent in the problem. It will need massive dynamism of the whole governmental machinery and a co-ordinated channeling of the efforts of different government departments towards the goal of providing basic needs to the poorest among the farmers.

Given the political determination of the Government, the next problem in order of priority, would be to map out a strategy to reach the small farmers for supplying them with credit, inputs, and extension services. Equally essential is the need to develop initiative and self-reliance in them which will enable them to participate more fully in the activities of political and economic institutions, and to search for new ways to improve their condition.

The Agricultural Development Bank initiated the Small Farmers Development Programme in 1975 on an experimental basis with the following objectives.

1. to increase the income and standard of living of the low income small farmers, tenants, and landless agricultural labourers.
2. to develop self-reliance among the farmers, i.e. the ability to organize themselves in a group and to plan and carry out their own projects.
3. to develop the receiving/utilising mechanism of the disadvantaged farmers by organizing them into small homogeneous multi-functional groups around specific income-raising activities

4. to adapt the local delivery mechanism to the needs of the small and disadvantaged farmers.

In addition to the activities meant to increase the income of the farmers directly, the project also aims at initiating social service programmes such as adult education, health, sanitation, water supply, family planning, maternity welfare, etc. with assistance from different line agencies of the government.

The project was first initiated in two districts—Dhanusha in the Terai and Nuwakot in the Hills. An impact study of these two projects undertaken by Agricultural Projects Services Centre in 1978 shows that the projects have made substantial impact on the farmers by increasing productivity and employment. Improvement is also noticeable in the fields of social activities. Most of all, perceptible awareness seems to have developed among the small farmers leading them to make greater group efforts to improve their economic condition. There are indications that their participation in the political process and social affairs may also have increased.

The initial success of the two projects led to the establishment of 22 more projects in different districts. Till July 1979, 561 groups consisting of 5075 farm families are estimated to have been covered by these projects. In the absence of any evaluation study its not whether these later projects have been able to make impacts similar to the first two. It is planned that by the end of the Sixth Five Year Plan i. e. 1985, there will be 210 Small Farmers Development Programme in operation.

The concept of organising groups in order to make co-operative efforts to obtain access to the services provided by government agencies and also to start other economic activities, seems to be quite effective in the Dhanusha and Nuwakot Projects. There can be no doubt that this strategy of group organisation should be continued and expanded further to cover larger areas as early as possible. The groups are organized by the official appointed by the Agricultural Development Bank, called the Group Organizer. He also helps the group plan add implement economic projects and keep the group functioning effectively. The appointment of the right kind of Group Organizer, therefore, is crucial to the success of the project. The availability of trained manpower is, therefore, likely to impose a serious constraint on the replicability of the project. It is perhaps with this in view that less than 200 projects are planned during the coming plan period. On the basis of the progress

made so far by different projects, it may be estimated that the number of families that may be covered by the projects at the end of the plan in 1985 will be approximately 60,000 small farm families. This will be only 4.3% of the estimated 1.4 million small farm families, at present. In the meantime, their number would have been increased by more than 10%, and their economic condition will have worsened further. And, it is doubtful whether they would be willing to wait till the programme comes to their doors. This puts a compulsion on us to find an alternative method or institution capable of delivering at least three of the services, credit, technical advice and inputs, to the small farmer in the shortest possible time.

Institutional sources of credit available to the farmers, at present are:

1. Sajha or the Co-operative Societies, numbering 1058.
2. Agricultural Development Bank with 140 branches.
3. Commercial Banks with 216 branches.

Among the institutions mentioned above the Sajha or the Co-operatives seem to be the organisations best suited to serve the small farmers in view of their number and the comparative speed with which they can be opened in the most outlying areas. A study made of these institutions recently by the Nepal Rastra Bank has revealed that desired expansion in their activities has not taken place. The study shows that out of the 1500 households living in the average area covered by a Sajha only 7 percent or 106 households borrowed from Sajha. According to another study, 37% of the small farmers reporting borrowings from institutional sources, borrowed from Sajha. But out of all small farmers reportings, borrowings 80 percent borrowed from private agencies and only 20 percent from institutional agencies in 1976-77. against 91 percent and 9 percent respectively in 1969-70. It also reveals that the share of the farmer in the total borrowings from institutional sources has declined from 11.6 percent in 1969-70 to 10.9 percent in 1976-77. The Rastra Bank survey of Sajha Institutions points out that the overall average overdue loans per Sajha amounted to more than Rs. 49,000 or 48 percent of the total outstanding loans. All these, point to the fact that significant progress has not been made in the supply of credit to the small farmers from institutional sources.

The slow progress in this respect has been due to several factors. Firstly, there has been a serious dearth of trained personnel willing to work in the co-operatives in rural areas. Secondly, there has been a lack of

adequate incentives in the officials of the co-operatives to take initiative in reaching the small farmers and serving them promptly and effectively. Thirdly, lack of flexibility in matters of collateral, which is a built-in constraint in all institutions, has worked as an inhibiting factor in the expansion of credit to the small farmers. Fourthly, elaborate procedural requirements which the small farmers cannot fully understand and which take appreciable time to complete, makes institutional credit actually costlier than borrowing from traditional sources in spite of the higher rates of interest charged by them.

It does not seem likely that the limitations mentioned above can be overcome substantially and in a short period of time. An agency has, therefore, to be found which can avoid the shortcomings of the present institutions of organized credit as well as those of the informal money market i. e. moneylender, landlords, agricultural traders. The new agency should be capable of exercising close supervision over the borrowing farmers and also of imparting to them the much needed technical advice. It should also have sufficient incentive to supply the services to the small farmers and should have the flexibility of waiving or altering requirements relating to collateral.

It would be extremely difficult to find a single agency or institution which combines all these elements. Several experiments may have to be made until we hit the right channel which should then be replicated. In fact, an additional requirement for the institution should be that it should be capable of being replicated at a comparatively quick pace. One of such channels for providing credit and technical services to the farmers could be the enlightened and successful farmers in the area who will operate at the sub-cooperative level. The basic outline of the system is described below.

1. Some of the successful farmers having good reputation in the village society will be invited by the Agricultural Development Bank to work as its credit agents in the village. Their main function would be to provide agricultural credit and also technical advice to the small farmers of the area. Of the farmers equally qualified those with smaller holdings may be selected.
2. Those who are willing to work in this capacity will be provided with funds, against collateral of land, buildings or other assets, by the Agricultural Development Bank for further lending to the small farmers. The funds to the agents can be provided by the Bank directly or channelised through Sajaha institutions.

3. General guidelines will be supplied by the Agricultural Development Bank for the use of the agents regarding the purpose of loans, period of repayment, requirements of collateral etc. They will, however, not be bound by any rigid restrictions and will have the full flexibility to waive these requirements if they consider it desirable to do so. They may even suggest changes in the guidelines in the light of their experience.
4. The agents will earn a commission of 4 to 5 percent per annum on all loans advanced by them. A small allowance of 3 to 4 percent can also be made for non-repayment of loans by the farmers.
5. The interest rate to be charged on the loans will be fixed by the Nepal Rastra Bank and should fully reflect the opportunity cost of capital, the cost of administering the loans as well as the risk involved. In view of this, it will be substantially higher than the present rates, and could be between 20 to 25 percent per annum. The purpose of the high rates is to reduce the possibility of the funds being diverted by the agents to other purpose, and the farmers being deprived of the funds meant for them. Credit at this interest rate may actually be cheaper to them in view of the time they would be saving in obtaining credit.
6. The agents, who are already successful and experienced farmers, would be given training periodically in new agricultural methods and techniques already tested by research so that they may not only be able to use it themselves but may transmit them to the small farmers under their direct supervision and guidance. This will enable the small farmers to make proper use of the innovative methods and thus increase their productivity and income, and make repayments quickly. This will reduce chances of delinquency and would mean higher profits to the agents. The enlightened farmers, thus, become willing and effective extension workers motivated, among other things, by the financial incentives thus offered to them. They would also receive training in matters relating to credit as well as in other farm vocation e. g. poultry, dairy, pisciculture etc.

7. In order to eliminate the possibility of the agents acting as monopolists and charging higher than authorised rates to the farmers, the Agricultural Development Bank, as a matter of policy should advance funds to all those who are qualified and willing to work as its agents. This will, by encouraging competition, increase the chances of the system functioning in the desired manner.
8. The high interest rates will cause a flow of funds to rural areas. It will make possible the mobilisation of funds from within the rural areas. If the rates are fixed say, at 20% it should be possible for the Agricultural Development Bank to issue negotiable bonds yielding upto 14% per annum. These bonds too, could be sold by the agents who would earn an additional commission on it. They will thus also have the incentive to mobilise savings. According to the Survey Report on Sajha Institutions five Sajha institutions were active in mobilising deposits. They collected a total of Rs. 550,000 as deposits with an average of Rs. 110,000 per Sajha, a figure which is by no means negligible. Of the total amount of deposits, Rs. 223,000 was in current account yielding no interest and the remaining Rs. 327,000 in Savings account which carries an interest of only 8%. It can be safely assumed that the rate of mobilisation would be much higher with bonds having much higher rate of return available in villages.

Credit channelised in the manner described above would increase the chances of the small farmers getting credit on time and easily. Moreover, this channel is capable of being replicated quickly throughout the country as there would be no manpower constraint in the process of replication. The constraint of financial resources would also be less in view of the substantial amount of additional resources which can be mobilised in the rural areas. Most of all, this channel can combine credit with extension very effectively.

Crucial for the success of this proposal, however, is that the rates of interest are kept at the rural market level. Unless this is so, distortions will occur and the scheme may not work. Frequently it happens that institutions or agencies do not work properly not as much due to own shortcoming as due to the inappropriateness of the policies they are called upon to enforce. In most of the developing countries interest rates in the informal money

market in rural are high because the supply of capital is low and because of the absence of an unified capital market in the country. As such a flow of capital should be induced from the urban to the rural markets, but this cannot happen until interest rates are kept artificially below the real market rate. Furthermore, low interest rates also work to the disadvantage of the small farmers in two ways. Firstly, it makes access to credit difficult for them. Secondly it discourages them to save by denying to them a realistic rate of return on their savings. A market rate of interest, thus, actually helps the disadvantaged farmer more than it harms him. If it is felt that the farmer cannot afford to use inputs because of high interest rates, it would be more logical to subsidize the inputs as it will reduce possibilities of diversion from one purpose to another,

It can be argued that the enlightened farmers employed as their agents by the Agricultural Development Bank may gradually develop vested interests of their own and overtime degenerate into the former money lenders. It may, however, be mentioned in this connection that this alternative has not been presented as a permanent solution, but only as a temporary expedient mainly because it is not possible to provide services to all small farmers in the immediate future through institutions because of the various constraints the institutions have to face. While experiments are made on the above proposal, we should proceed with the expansion of institutional services. The agents will continue to operate only till the institutions can take over. Small farmers, in the meantime, will not be deprived of the services crucial to their development.

An institution which is vital for the development of small farmers is the Peasants Organization which would give them organized strength to safeguard and promote their interests. This organization will act as a pressure on agencies or institutions in the field of agricultural development to function smoothly and to prevent a deterioration in their services.

Lesson can be learnt from past experience in organising peasants association and likely pitfalls avoided. Previous experience with the Nepal Peasants Organization has been that instead of being an organization of farmers for promoting their interests, it became an organization to influence the farmers into doing what the elites considered desirable in their own interests. It also served as an extension of the arm of bureaucracy in performing various tasks assigned to. It only served to pre-empt the establishment of real organization of the

farmers capable of concerted move to influence government and other institutions into actions and policies designed to further rural development.

In order to become effective the farmers organisation must be based on the true economic interests of the farmers. Such an organisation which can begin as a group of farmers built around some common economic activities and meant to obtain access to services and facilities offered by public agencies, can later develop into a district level, zonal or even national organisation capable of exercising political leverage to extract benefits for the neglected farmers. The process of organising groups under the Small Farmers Development Programme should, therefore, be continued. These groups could serve as the basic units of the peasants' organisation and be permitted to have links with other similar groups to form the district level of organisation. When the groups start functioning well, they should operate as channels through which all services meant for the small farmers are channelised. It is important that the Government or bureaucracy should in no way intervene in organisational matters of the group or the organisation, and initiative of the farmers should be given free play. It is this organisation of small farmers which can ultimately become the medium through which they increasingly participate not only in matter which directly affect them, but also in matters relating to the government of the country. The real participation of the people comes only as a result of the moves made by them to achieve the objectives they seek. The peasants organization could serve as the medium through which they can make such a move.

When thinking about rural development we generally think of creating new institutions, based mostly on new concepts, to achieve the desired goals. In this we sometimes overlook the fact every institution has to function within the larger social, political and cultural system and environment in which we live. It is possible that the objectives which the new institutions seek to achieve may be inconsistent with the larger social milieu. In such cases these institutions cannot be integrated with the large social economic and cultural system in the country. Quite often it is a change in this larger system which may be indicated. But if the larger milieu cannot be changed substantially it may be more effective to try to accomplish what we want, not by creating new institutions, but by trying to modify existing ones.

Experience has shown that the development of new institutions has to face substantial constraints relating to trained manpower and its motivation.

It is an additional reason why possibilities of utilizing existing channels with necessary adjustment should be more fully explored. It is with this approach that the idea of using the successful and enlightened farmers as vehicles for supplying timely credit and extension services, was presented earlier. As a further extension of this approach, I would suggest that we consider the possibility of using private sector in various other ways also in advancing rural development. This sector, through a system of incentives, can be effectively used in supplying agricultural inputs and equipments, inputs for cottage industries, family planning services, irrigational needs, drinking water supply, means for more hygienic living etc. In the meantime, full efforts should continue to be made supply these services through institutions. Tasks to be performed in the field of rural development are of such magnitude that private entrepreneurs and agencies as well as public institutions can work side by side for decades. It may also be possible to induce the private sector to develop new equipments and materials for rural development and also to promote them. A fuller study of these possibilities by appropriate authorities may be fruitful.

There is, however, little hope of bringing about a rapid improvement in the condition of farmers, without creating opportunities for substantial additional employment, as 63% of their total available days in rural areas remain unutilised. It is possible to increase employment to a certain extent by improved methods of cultivation and more intensive cropping. Employment may further be increased through additional farm activities like poultry, dairy, pisciculture, piggery etc. and through cottage industries. Enough days will still be available for utilization in cases of most of the farmers. The pace of rural development will depend on how best these mandays of labour are employed in gainful employment. Building of rural infrastructure which may directly contribute to increased production (e.g. irrigation channels) or which may fulfil the felt needs of the community (e.g. drinking water, bridges etc) seem to be the kind of activities obviously suited to generate such employment. The difficulties in such projects seem to be mainly three. Firstly, there is question of appropriate organization to plan and undertake the projects. Secondly, there is the problem of financing. Thirdly, there is the question of obtaining technical skill in the implementation of the project.

The organization to undertake the project may be the small-farmer-group, a joint committee of a number of such groups or even the village Panchayat- depending upon the nature of the project, its coverage in terms of population and

area or its cost. A new institution of financing rural development may be desirable to finance viable projects at the local level. This Rural Development Corporation may identify and select projects for financing at the request of any of the farmer's group, a co-operative or the village panchayat or any other organisation or committee formed for the project. Technical advice could also be provided by the Corporation during the construction stage. The corporation may also appoint persons to run or maintain the project after completion, on the advice of the local organization which undertook the project. Further details about this institution and its methods of working could be worked out once the idea is acceptable in principle.

I wish to repeat that the adoption of right policies especially in the field of agriculture is critical to rural development especially the development of small farmers. It has frequently happened that policy decisions affecting agriculture directly, have been taken by different agencies of the Government keeping in view only the limited objectives of that particular agency. It is however, crucial that the entire agricultural policy should be conceived, planned and implemented as a co-ordinated package so that no irrationality or contradictions may develop. Series of isolated decisions by the different authorities on matters affecting agricultural production and incentives often work at cross purposes one negating the affects of another. As an example, while the Ministry of Agriculture attempts to provide incentives for agricultural production through various means, actions of some of the other agencies of the Government to keep the price of agricultural produce low by direct administrative action or by restrictions on movement or through levies, act as strong disincentives.

In view of the above, a high level committee preferably under the chairmanship of the Prime Minister seems to be desirable to co-ordinate and supervise rural development. All policy decisions affecting the farmers should be taken through this committee. The Prime Minister's office may work as the secretariat of this committee and should also monitor the progress in the implementation of programmes for the development of small farmers.

This brings us back to the question of basic institutional requirement for rural development. There must be a series of institutions, at different levels, which have a vested interest in the development of the rural poor. The first and foremost among these is a government with the highest commitment

to rural development. Other institutions working towards this end can be effective only when the political and social environment created as well as the framework of policies adopted, by the government are geared towards advancing the interests of the poorer sections of the rural society. Also desirable is that all possible channels, including the non-institutional sector, be used for reaching the poorest and for furthering rural development, which must be recognised and acted upon as a national goal.



“Experience In Group Approach To Small Farmer Lending”

-Narendra K. C.

1. Genesis:-

1.1. Historical records show us that the productivity of land labour has given substantial gain to big and middle-sized land owners. In other words, economic progress in the field of agriculture over the last decades gave substantial benefits to those who have sufficient resources in the form of land and capital. However, the development benefits received from agricultural development programmes could not reach out to small farmers who constitute the majority of rural agricultural population. This tendency of developmental programmes created further the hiatus between the rich and poor classes of people. Thus the small farmers, agricultural labourers, who have meagre productive resources in the form of land, labour and skill remained outside the purview of developmental process.

1.2. Basically, two main activities in our socio-economic milieu seem to have existed in the rural areas. They are in the form of money lending and marketing, dominated by the rural gentry towards the general masses made-up of small and marginal farmers, landless labourers and village artisans. The available resources and services, either through the district or primary institutions mostly congealed round the rich and the benefits accrued therefrom could be helpful to consolidate the hold of the richer farmers over the poor in the form of controlling the available inputs and outputs. This process of controlling helped further the richer farmers to get cheap labour and enabled them to get maximum benefits out of their running activities. In short, development seemed to be directed only for the rich. On the other hand, the deteriorating situation of the rural

economy made the poor farmers virtually dependent on the rural money lenders, traders and land-owning people. As a consequence, these rural poor have not been able to receive reasonable wages for their labour. Thus the prevailing circumstances are compelling these rural poor to lose their possessions whatever they have and turn them into a position of destitution.

1.3. Recognising the predicament of small farmers, a workshop on development support of small farmers of Nepal was organized from January 4-14, 1974 under the joint auspices of Ministry of Food, Agriculture and Irrigation, Ministry of Land Reform, Agricultural Development Bank and FAO/ASSARD (Asian Survey of Agrarian Reform and Rural Development). The main objective of the workshop was to focus attention and suggest action oriented policy options for their benefit.

1.4. The outcome of the seminar gave birth to two experimental small farmers development projects. One came into operation from September 1975 at Dhanusa district representing terai (the plain area of the country) covering 2 panchayats-Sankhuwa and Hariharpur and other at Nuwakot district representing hills covering another two panchayats-Tupche and Karki Manakamana from March 1976. The main objectives of these projects are to enable marginal and small farmers to participate in developmental activities through group action in raising their level of output and living and to make this process self-sustaining overtime. With the experience gained from these two projects, this programme has so far been extended to areas reaching 34 projects in the country.

2. Objectives of the Paper:

2.1. The first objective of the paper is to give brief sketches of the performances of Small Farmers Development Projects.

2.2. The second objective of the paper is to find out advantages and successes of group lending as well as identification of group lending problems and provide suggestions thereto.

3. Past Vs Present Institutional Approach to Small Farmer Lending:

3.1. The institutionalised agricultural credit programme dates back to 1963 when the first Co-operative Bank was established in the country. The role and scope Co-operative Bank being limited and inadequate from the

stand points of meeting the requirements of agricultural sector, the Agricultural Development Bank was established in 1968 incorporating all the functions of Co-operative Bank in order to make its operations broader and more adequate. Prior to launching the experimental small farmers development projects, the bank used to extend loans thru its field net-works to individual farmers who were basically large and medium size farmers as well as to Co-operatives which in turn reloaned to its members on the basis of crop production plan timing of operations submitted by the member-farmers to the co-operatives. It clearly shows that the co-operatives engaged in the limited functions such as providing production credit in kind and in retailing agricultural inputs on the one hand and the predominance of small size farms not operating in the economics of scale and small farmers barely eking out their living on the other hand could not be instrumental to mobilize maximum number of small farmers by participating them in the developmental activities. As such, it was felt to broaden the scope of co-operatives in order to bring majority of poor farmers into the mainstream of development. The flow system of Agricultural credit then Agricultural Development Bank prior to launching small farmer development projects is presented in Annex-1.

3.2. The previous approach in small farmers lending thru the medium of co-operatives was found inadequate since most of the co-operatives fell under the influence of the well-to-do farmers which could not take care of majority of poor small farmers. On the other hand the small and marginal farmers being socially and financially too weak and dispersed could not be able to develop their own receiving mechanism to reinforce themselves to participate in and take-up risk trying new developmental activities. As such, the self-perpetuating plight of small farmers and landless labourers called for building their own receiving system-the process of seeking, planning and receiving and utilizing the production programme. As mentioned above, due to the incapacity participate in and benefit from the institution of development by the small farmers individually, the need for grass-root level organisation of small farmers had been indispensable. The organisation of small farmers is below the level of co-operatives and village committee which is vital aspect of small farmers development project. Therefore, at this moment, at least, informal group organisation of small farmers into groups help develop their receiving system which implies group level planning and create an access for them to receiving and utilizing productive resources to implement their programme constituents. This group planning and implementation by the beneficiaries themselves would help safeguard their own interest through group

personality which is highly essential in the process of their development. The Agricultural Development Bank has thus found a system to land on the group level activities thru the medium of co-operatives. The co-operatives itself is experiencing an appropriate mechanism to channel its activities thru the medium of small farmers group. In short, small farmers group has been a support to co-operatives rather than a substitution to co-operatives (vide Appendix 2). Moreover, the Agricultural Development Bank is also directly lending small farmers group where the co-operatives have not been able to reach there.

4. The Role of Small Farmers Development Project:

4.1. As a field action project, the small farmers development projects are specially established at the field level to organise and start working an effective grass-root level mechanism for the socio-economic development of small farmers. The main objective of the field workshop is to organize the target group—small farmers, landless labourers by motivating and creating awareness to them through individual and group approach and assist to making available the various services of the delivery system.

4.2. The basic needs of small farmers and peasants differ to that of other developmental programme. The role of the field action project is to assess the basic needs of the small farmers and assist the small farmers group to prepare their farm plan and budget and maintain the proper accounts in the group.

4.3. Another significant role of small farmers development project is to enable the small farmers to receive developmental services from different agencies. In other words, it works as an effective media between the delivery and receiving mechanism which was conspicuously absent in the past.

5. Lending Procedure to Small Farmers' Group:

5.1. The formal meeting of small farmers group decides on how much loan to apply for the activities to be undertaken in the group individually and jointly. Since the group organiser also attends most of the formal meeting to discuss on the loan agenda, generally there does not arise the need to make pre-loan supervision. The recommendation of loan by the group depends on the economically and feasible activities identified by the group organiser.

8.2. Dhanusa:

8.2.1. The average size of family members were 6.2 and 6.3 before and after the project respectively. During this period the percentage of farm workers per family also increased from 55.0 percent to 56.7 percent. However, the average size of holdings per family has remained 78. hectare both before and after the project.

8.2.2. Value of livestock per family before the project was Rs 1372 whereas it went up to Rs 3501 after the project. The reasons behind it was the provision of livestock loan which prompted the small farmers to borrow for the purchase of livestock which has been a prime factor in the increase of their income. The average value of other assets in the form of land, farm buildings agri-tools per family of small farmers was only Rs 15742 before the project which went up to Rs 17634 after the project.

8.2.5. An indicator of farm improvement is taken from cropping intensity due to increase in total cropped area. Before the project the total cropped area was only 61.2 hectare having a cropping intensity of 120.2 percent but after the project the total cropped area went up to 73.8 hectare and the cropping intensity reached to 133.0 percent. The reason is attributable to the provision of irrigation facilities after launching the project (Table 3). Effect on gross income before the project was only Rs 3747 whereas it went up to Rs 5070 after the project. Basically thus increase in income came from livestock products, agricultural production.

8.3. Trisuli:

8.3.1. The average size per family before the project was 5.91 and it went up to 6.10 after the project due to addition of family members in the family. The farm workers out of the total members of the family, however, remained constant before and after the project. On the other hand, the average size of holdings per family before the project was .25 hectare but after the project it went up to .26 hectares per family. It is because of the fact that some small farmers could be able to purchase lands in the area.

8.3.2. The total cropped area before the project was 37.4 hectare which increased to 40.6 hectare after the project. The cropping intensity in Trisuli case has increased from 185 percent before the project 193 percent after the project respectively. On the other hand, the total income per family before the project was Rs 6670 whereas it went up to Rs 10838 after the project. The contribution to gross income came mainly from livestock and agricultural productions.

9. General Observations on the Nucleus Activities:

9.1. One of the successful nucleus activities is carried out by group No. 3 of Dulari panchayat of Morang district. The total number of members in this group are 11. They had taken a sum of Rs 19414 to construct a dam which irrigates about 50 hectares of land. Prior to the construction of this dam, these farmers used to construct temporary dam for which they had to spend Rs 10000 every year. Now the construction of this permanent dam has provided them multi-benefits their farm income has risen more than 50 percent, they have not to borrow from money-lenders' to construct this dam every year and the members are now trying to introduce improved method of cultivation since water is available for them all over the year. This group is repaying the Bank's loan satisfactorily. This irrigation nucleus activity has been helpful to bring about stability and viability in the group for which the Bank can rely on for more activities even in the future.

9.2. Another example of nucleus activity is the construction of dam by a group of farmers which is directly organised and financed by the Jhapa Branch office of ADB/N. There are 15 farmers in the group who took loan of the order of Rs 55615 and the voluntary labour contribution of the order of Rs 24321 was provided by the farmers themselves. The total land to be irrigated is about 40 hectares. This is the example of directly handled group by the Bank's office which is a success case in maintaining the required level of stability and viability. According to the farmers of the group, they were highly satisfied with the performance of ADB/N since they were about to migrate in other place since they always had to suffer from flood and loss of money due to futile efforts to construct temporary dam. They were heavily indebted due to such losses. But after the construction of the dam they have now been able to generate more than double income than the previous period and gradually they are paying off the old debt of the money lenders as well as of the Bank. This group seems to have united for a common purpose and the personality of the group is found out so influential that no other effort can break it up.

9.3. Unlike the previous successful nucleus activities which united the group successfully, group 2-B of Kakarbhitta panchayat of Jhapa have taken different individual type of loans such as buffalo keeping, bullock cart, sewing machine etc. Although they are trying to find out a suitable common income-raising activities yet they have not been able to finalise a

suitable nucleus activities that could bind this heterogeneous group together. Mostly their investment at present seem on livestock which has given them good income yet due to lack of veterinary and other support services they have to bear a high risk which they realise themselves. At present the average income per member seems to have risen by 30 percent before the project. But unless a suitable type of common/joint activity is introduced in the group and supporting services are not reached, it will take much time for the group to bring out cohesiveness and stability in the group.

10. Advantages and Successes of Group Lending:

10. 1. Since the small farmers group are organised for broader purposes than credit, credit as an entry point is playing a vital role in small farmers development projects. Around a nucleus economic activities, many other socio-economic activities are being introduced to achieve the broader objectives of socio-economic development of small farmers. As such, group credit has shown the following advantages and successes both to the borrowers and lenders.

10.1.1. In the successful groups the Bank has the experience in extending credit at least cost of supervision since group itself take the responsibility for this. Such groups, on the other hand, has been able to receive loan timely and easily.

10. 1. 2. The successful groups from the point of view of stability, viability and good leadership has shown effective control over the activities they had undertaken which has been helpful to the leader to receive timely payment of loans.

10. 1. 3. The group credit has been advantageous to reach larger number of small farmers. Moreover since most of the target group are identified from among the poorest segment of farmers, there exists the possibility of more equitable distribution of income among themselves.

10. 1. 4. Some of the groups built around successful nucleus activities and some income raising individual activities along with their quality of leadership have shown successful handling of credit. The rate of defaults of loans is negligible and are showing eagerness to accumulate capital to forge ahead in new venture that would provide them sound economic base.

10. 1. 5. In some of the groups credit as an entry point has worked as a force to unite members resulting in stronger and viable groups. The

benefits derived from the activities due to the use of credit has generated confidence among the members that it is acting as a liberating force from exploitation.

10. 1. 6. Although group credit was started 4 years ago yet despite different obstacle in reaching out maximum number of poor small farmers, it can be counted as successful extending access to credit even to the landless and village artisans who were categorised hitherto inviable groups.

11. Basic Problems:

11. 1. Lending is not be all and end all for agriculture. Provision of other facilities in the form of inputs, services and marketing facilities is a must for agricultural development. Around credit other supporting services have not reached satisfactorily and as a result failures of agricultural operation have been identified in the groups.

11. 2. The proliferation of the number of projects and groups without providing proper attention and services will only bring negative impact in small farmers development endeavour. As to organised groups so far only 25 percent of the groups are found functioning satisfactorily. For the rest adequate attention in term of motivations and services should be provided otherwise with few activities or no activities these group might disintegrate sooner or later.

11. 3. In certain cases the group is found effective in implementing the loan, in other it is found less effective. Lack of group responsibility and real cohesion in the group due to lack of group loans and group practices has made some groups ineffective.

11. 4. Generally similar type of credit programme seems to have been implemented in all the small farmers development project focussing specially on farm implements, irrigation, livestock and crop production etc. Lack of proper programme mix for a particular area may create various problems in the long run. Unsuitability of credit programme simply for organising the group will not be helpful to bring about successful group functioning.

11. 5. Another basic problem is the lack of good and proper group leadership and its continuity since it is the key stone determining the success or failure

of the group. Although group leaders originate from the same locality. Yet they need appropriate training to understand and communicate with members.

12. Conclusions and Recommendations:

12. 1. It has been clear that group approach is being attempted to deliver loans to small groups. But the experience gained so far may be inadequate and insufficient to answer various issues that may stand in the way of its functioning. Yet from the point of view of lending institution the following suggestions can be offered to make this programme all the more successful.

12. 1. 1. Small farmers development projects should be established only in the areas where its need and potentialities exist most. Moreover, group organisation should be cautiously made and proper service delivered to the few organised groups rather than increase its number without catering services.

12. 1. 2. General experience shows that successful nucleus activities have generated group cohesiveness and responsibility which is vital to group functioning. As such, at least a common income raising activities such as irrigation fruit orchard, etc. should be introduced in a group in order to bring about cohesiveness in the group.

12. 1. 3. Unlike individual loans, group loans is easy to administer both for delivery and collection provided proper programme mix could be introduced in the well organised groups. Moreover, it will facilitate to curb significantly default of loans.

12.1.4. Small farmers development should be viewed in a total system approach rather than just a credit injection. Credit may serve as a handle to mobilize rural poor and start some income raising activities but credit alone will not be productive unless required amount of back stopping and other services could not reach in the area.



Table No. 1
LOAN DISBURSEMENT, COLLECTION AND OUTSTANDING OF
SMALL FARMER'S DEVELOPMENT PROJECT

(Rs. in '000)

S. No.	Purpose of Loan	F. Y. 1977/78					F. Y. 1978/79					F. Y. 1979/80 (Upto December)					% of overdue to Outstanding		
		Disbursement	Collection	Outstanding			Disbursement	Collection	Outstanding			Disbursement	Collection	Outstanding			1977 to 1978	1978 to 1979	1979 to 1980
				Over-due	Not Over-due	Total			Over-due	Not Over-due	Total			Over due	Not Over-due	Total			
1.	Cereal Crops	375	161	87	127	214	218	190	91	151	242	215	40	103	314	417	40.65	37.60	24.70
2.	Cash Crops	112	4	4	104	108	115	77	8	138	146	22	30	17	121	138	3.70	5.98	12.32
3.	Farm Machinery & Irrigation	1049	176	31	843	874	848	160	69	1493	1562	103	41	86	1538	1624	3.55	4.42	5.30
4.	Livestock	2275	345	19	1911	1930	1510	467	639	2334	2973	624	227	644	2726	3370	0.98	21.49	23.62
5.	Horticulture	223	72	2	149	151	151	40	26	236	262	86	33	29	286	315	1.32	9.92	9.21
6.	Cottage Industry	64	—	—	64	64	50	1	—	113	113	66	1	2	176	178	—	—	1.12
7.	Miscellaneous	139	—	—	139	139	317	163	58	235	293	35	3	66	259	325	—	19.80	20.31
	Total	4237	758	143	337	3480	3209	1098	891	4700	5591	1151	375	947	5420	6367	4.11	15.94	7.02

Note: 1. Figures except disbursement are cumulative.

2. Miscellaneous loan is other than mentioned in loan purpose 1-6.

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Table No. 2
TOTAL NUMBER OF GROUP ORGANISED AND THE TOTAL MEMBERSHIP

(In No.)

S. No.	Region	1977/78			1978/79			1979/80 (Upto December)		
		Total No. of Projects	Total Groups	Total Members	Total No. of Projects	Total Groups	Total Members	Total No. of Projects	Total Groups	Total Members
1.	Eastern Development Region	3	37	298	5	63	481	9	78	624
2.	Mid-Development Region	9	188	2260	10	256	3018	12	277	3318
3.	Western Development Region	3	49	388	5	90	944	7	116	1250
4.	Far-Western Development Region	2	10	166	4	55	610	6	57	641
	Total	17	284	3112	24	464	5053	34†	528	5833

Figures are cumulative.

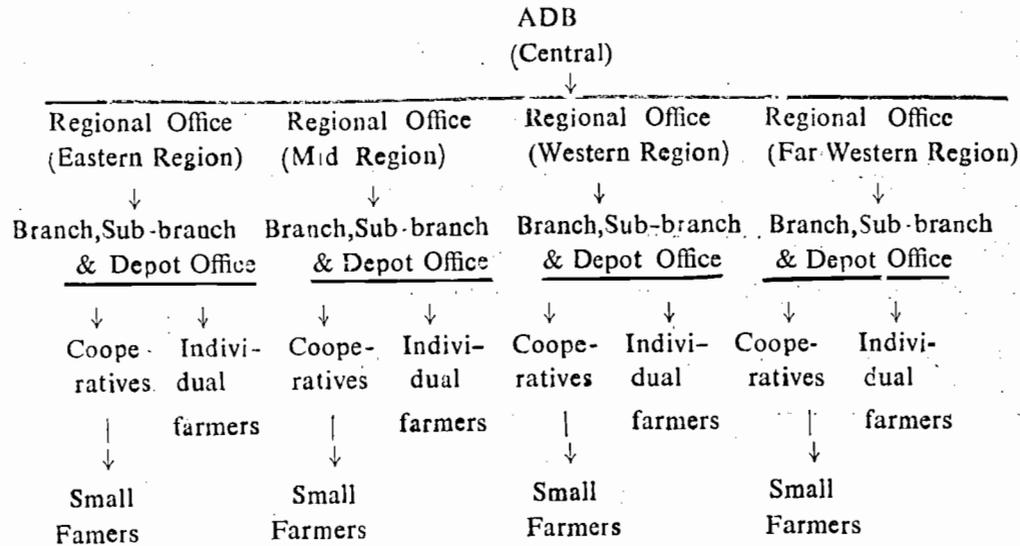
† 5 projects are in the process of organising groups.

Table No. 3
**CROPPING INTENSITY OF EXPERIMENTAL SMALL FARMER'S PROJECT
(BEFORE & AFTER THE PROJECT)**

Name of the Project	No. of Small Farmers Interviewed (Before as after the Project)	Before the Project			After the Project		
		Total Cropped Area (In Hectare)	Total Cultivated Area (In Hectare)	Cropping Intensity (In percentage)	Total Cropped Area (In Hectare)	Total Cultivated Area (In Hectare)	Cropping Intensity (In percentage)
Dhanusha	58	61.2	50.9	120.2	73.8	55.5	133.0
Nuwakot	70	37.4	20.1	186.1	40.6	21.0	193.3

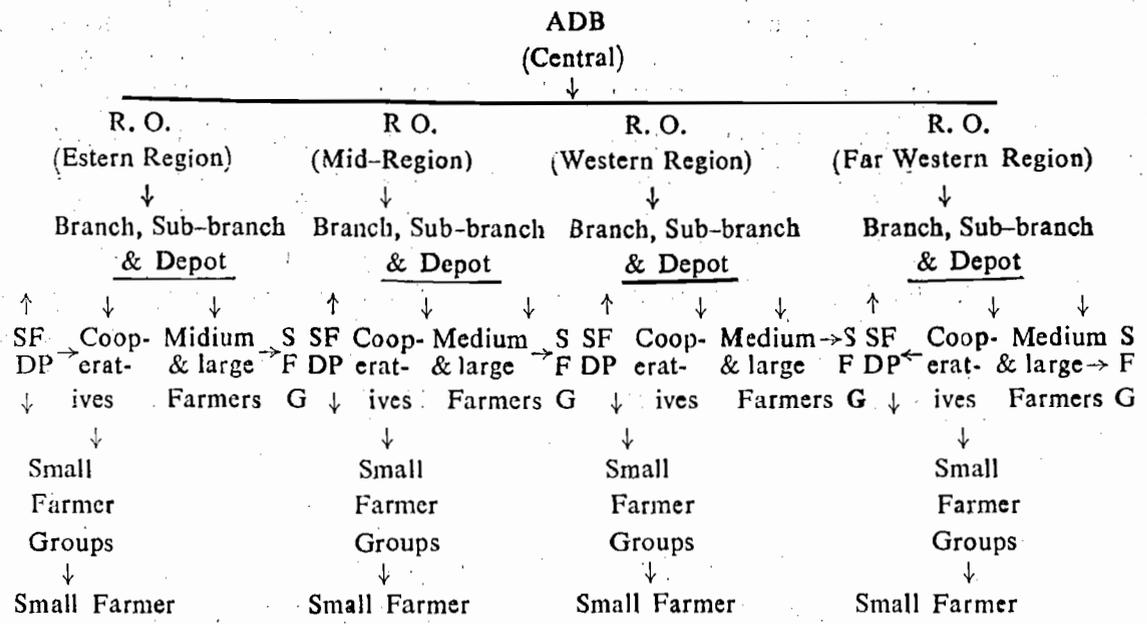
Source: Two Experimental Small Farmer Projects, Dhanusha & Nuwakot.

FLOW SYSTEM OF AGRICULTURAL CREDIT
 (Thru Agricultural Development Bank Prior to Launching Small
 Farmers Development Project)



—→ Agricultural Credit Service Relationship.

FLOW SYSTEM OF AGRICULTURAL CREDIT
(Thru Agricultural Development Bank After Launching Small Farmer Development Project)



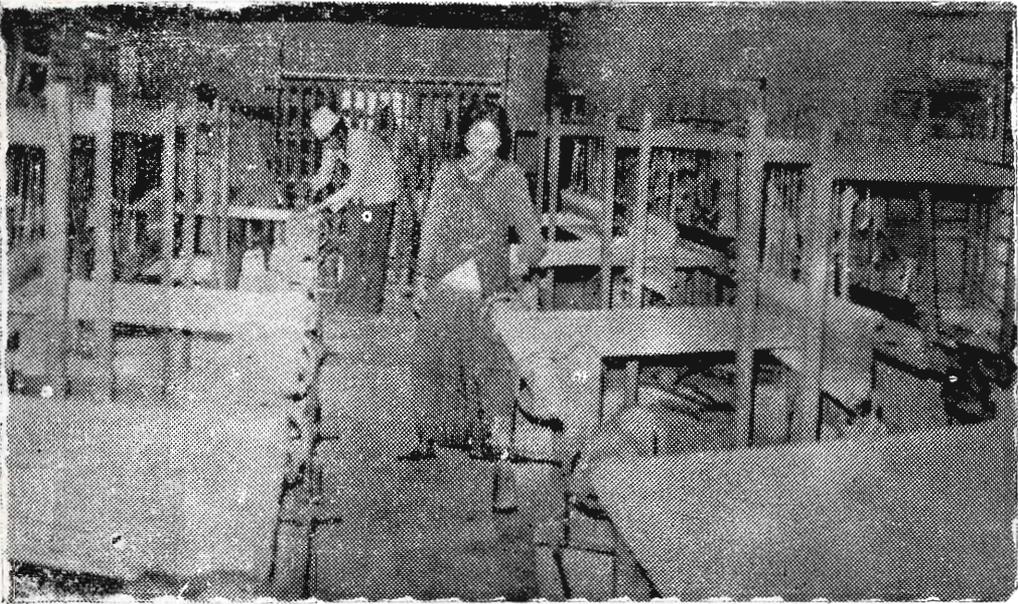
—→Agricultural Credit Service Relationship.

SFDP=Small Farmer Development Project.

—→Group Organisation and other service Relationships.

SFG = Small Farmers Groups.

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A scene of activities of Cottage Industry inside the room



The participants seen in a happy jolly mood.

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Small Farmer Development Through Integrated Rural Development

-Bihari K. Shrestha

Introduction

The history of rural development effort in Nepal has now been three decades old. However, in the last five years it has gained in prominence and priority with the implementation of donor-inspired Integrated Rural Development Projects in the country. The first such project was launched four years ago in two hill districts of Rasuwa and Nuwakot in Central Nepal under the rubric of Rasuwa-Nuwakot Rural Development Project with a total outlay of 136 million Nepali rupees (US \$ 1.00 = NRs 12.00) of which 8 million dollars were obtained on loan from the World Bank. With additional assistance from the World Bank, the Asian Development Bank and the Government of Great Britain the number of such projects has now increased to four covering a total of 12 districts with an estimated total outlay of 850 million rupees. With two new projects in the offing with the US and Canadian assistance in Far Western Nepal, the volume of investment is expected to rise up to one and one-half billion rupees in the near future. And what is more, donors are looking still farther a field for more projects in the area of rural development in Nepal.

Besides these donor-funded projects the Government has also been implementing programmes of rural development in all the districts in the country although with smaller resource outlays.

The activities included in all these projects are more or less common. They consist of development programmes in the fields of agriculture, cottage industries, rural transport, social services, forest, erosion control, rural credit,

marketing etc. The totality of these activities are assumed to contribute to the enhancement of the standard and quality of life of the majority of the people living in rural Nepal.

Structure of IRD Planning and Implementation in the Country:

In the last three decades of rural development planning and implementation in the country its organisational structure has undergone several changes in keeping with the needs of the programme. Although during the earlier days of the programme the Government relied very heavily on the models provided by the donors namely the US Government and later also the Indian Government, indigenous quest for developing and instituting necessary and suitable organisational structure was increasingly made as the time went by. Accordingly the Government drew up a District Development Plan in 1974 which provided for a unified district administrative structure, a system of planning at the local level and an institutional mechanism for ensuring people's participation in it (Home Panchayat Ministry, 1974.)

In 1978 the Government further developed and implemented what it called the Integrated Panchayat Development Design which, while being a complementary document to the aforesaid District Administration Plan, for the first time laid down the objectives and policies for an RD programme in Nepal, its areas of activities and an institutional structure to plan, implement and evaluate it (Ibid 1978). It is within the provisions of this design that all rural development projects in the country are planned and implemented.

According to this Design institutional development is to be the keystone of rural development in Nepal. Rural development programmes are to be based on the felt need of the people which is dealt with as a dynamic entity subject to change and growth on the basis of input of new informations to the people. People's participation is defined to mean their participation in the decision-making process in the planning of programmes and allocation of resources. Because of close interrelationship between rural development problems all programmes of rural development are to be planned and implemented in an integrated manner. A rational and permeative organisational structure is to be created which would build itself up from the grassroot level culminating in the highest decision-making level in the Government. And the service givers i. e. the RD workers are to be made accountable to the service users i. e. the rural people.

In pursuance of these principles the Design provides for the formulation.

of integrated village development plans each year which are put together into an annual District Development Plan. The disaggregated sectoral components of these plans constitute the basis for sectoral plans at the national level.

Planning at all levels is to be the result of a participatory process. At the lowest level the village panchayat (executive) and its constituent bodies namely the village Assembly (Village parliament), ward committees and project-specific management committees are to function as the basic popular institutions at the lowest level. In the midst of 3 to 5 Village Panchayats there would be a Service Centre comprising of service units of different sectoral agencies providing necessary backstop to the Village Panchayats in the area in the planning implementation of their multisectoral Village development plans. Each Service Centre is to function under a service Centre Supervision Committee comprising of all the presidents of the local Village Panchayats presided over by the District Panchayat member of the area.

The next level in the hierarchy is the district administration paraphernalia where the sectoral representative function more or less as a team under the coordinatorship of the Chief District Officer who is the supreme representative of the Government in the district and has also the responsibility of maintaining the law and order in his area.

The District Panchayat, a body of eleven elected members, is the executive committee of the district parliament called the District Assembly. All the District Development plans have to be approved by the latter before they are submitted to the government for funding.

Above the district is zone which is presided by a Zonal Commissioner, a nominee of His Majesty the king. The Design provides for a project Committee under him where donor-funded IRD projects are in operation. Elsewhere, it requires a quarterly review of the RD programmes at the Zonal level and tries to enlist the involvement of one of the important and powerful functionaries in Nepalese bureaucracy in rural development.

At the national level there is a Panchayat Development Central Coordinating committee under the chairmanship of the Minister for Home and Panchayat in which the Vice Chairman of the National Planning Commission and all the permanent Secretaries of the relevant Ministries are members.

Above it, there is also a Cabinet Committee on panchayat Development under the Chairmanship of the Prime Minister of the country for providing basic policy guidelines for RD in the country. And finally, the Design provides for a review of performance and status of rural development in the country each year in the presence of His Majesty the king.

In sum, while the Design represents one of the most comprehensive Document ever prepared on rural development in Nepal, its inception has been fairly recent and its provisions have not been fully operative yet, part of the reason for this being attributable to the transition that is currently taking place in Nepalese politics.

Small Farmers as the Beneficiaries of IRD Projects:

Given the facts that 94.4 percent of the population in the country are engaged in "Agriculture, forestry, hunting and fishing" (Central Bureau of Statistics, 1977:175) and that the per capita distribution of agricultural land in 1974/75 has been only 0.2 ha. nationally with a geographical variation of 0.1 ha. in the more heavily populated mountains and hills and 0.3 ha. in the plain (terai) area (Shrestha and Jain, 1978: 22) it can be safely stated that Nepal is mostly a country of small farmers and that with a population growth rate of around 2.5 percent per annum, their proportion in the population is certain to increase in the days ahead. Given this kind of a context it is only natural that one of the primary objectives of the IRD projects is to ameliorate the living conditions of the poor majority in the rural areas. Therefore, the Design explicitly lays strong emphasis on increasing the quality of life of the poor majority and donors' mandate to render assistance to Nepal also have more or less the same basis and objective.

Achieving this objective in practice however, is a different story altogether. To take the case of the IDA-assisted Rasuwa Nuwakot Project for instance the per household distribution of agricultural land is 0.3 ha. in Nuwakot and 0.4 ha. in Rasuwa. Industrial sector which means mostly the cottage industries is of little commercial value. According to the Baseline survey done for the project in 1978, 75% of the sample households reported some kind of cottage industry activity (average value US \$ 5.00) 94% of which were home consumed (Biegegard, 1978; 94-95). Emphasizing the inter-household economic disparities the Report stated that no less than 51.2%

of the farm holdings are 0.26 ha or less. 18% of the farmers own 45% of the land. 38% of the farmers cannot satisfy more than 1500 calories of their daily requirement from on-farm production. And these very small farmers also happened to have fewer livestock. The Report continued: "The picture that emerges is familiar; there is a large section of the rural population that is comparatively disadvantaged in a whole series of inter-dependent ways which limit the possibilities for those families to break out of their vicious circle and improve their lot It is clear from the survey that only 60% of the project area population constitute the target population defined by the prime objective of the project; the remaining 40% manage from their domestic production to satisfy their nutritional needs with a smaller or wider margin If the project is to meet its prime objective, project activities have to be directed to reach the target population defined by the same objective

"The project design and current project operation do not reflect these circumstance and the implication of its prime objective should steps not be taken to reshape the project for reasons given above it seems a safe forecast that the project will be a failure in terms of its own prime objective. The larger farmers and the richer villages will capture a disproportionately large share of project assistance, and the poorer sections of the farming community will hardly reach subsistence level" (Ibid; 114-118).

Despite these findings the project, even after having gone past half of its life time remains unchanged in its structure. What is more interesting is that the triangular interest in the project namely those of the local people (mostly represented by their leaders), the government and the donor is focussed on achieving as speedy an implementation as is possible for it and it is my observation that all of them have one belief in common which is that the benefits of development will sooner or later be availed by all the people in the project area, only if it were to be implemented on schedule. What is also worth noting is that despite the stated objectives of the project as well as the official policies of the government and the donor in favour of conferring benefits of development to the poor majority in the country, the monitoring of the project performance in terms of its distributive aspect has indeed been very very rare. This is not only true for the Rasuwa Nuwakot Rural Development Project but also for all other RD efforts in the country.

Stratified Structure of society- A Problem:

The fact that the distributive justice of the RD projects is limited to rhetoric has its roots in the stratified structure of the society itself. It is common knowledge that the Nepalese society is stratified along social and economic lines with considerable correspondence between social and economic statuses of the individual. If a person enjoys a higher social status in the hierarchical reckoning of caste or ethnic statuses it invariably follows that he also enjoys a higher economic station in life. Since political power follows social and economic power in a stratified setting the majority would have only limited influence, if at all, over the decision-making behaviour of the elite in the allocation of scarce resources. A few studies done in this area have pointed out differential access of people to resources and developmental benefits on the basis of their social and economic status in society (McDougall 1968; Shrestha and Gurung 1973; et. al.) In a different study of the Rusuwa-Nuwakot project area also such differential access to resources have been reported. For instance, in a Village Panchyat area called Belkot, out of estimated 1100 households only about 400 of them are shareholders in the local cooperative society and are the beneficiaries of short and medium term credit. The ones who are left out of the cooperative fold are mostly the poorer households and their ability to compete against more favoured villagers for credit is simply limited (Shrestha, 1979: 23-24). In a similar other instance in Chaughara Village Panchyat only the upper third of the local households are members of the local cooperative society (Ibid: 39).

The Small Farmers Development Programme- A Story of Exception:

Given the kind of socio-economic context discussed above the successes scored in the Small Farmers Development Programme in the two experimental projects in Nuwakot and Dhanusha Districts are certainly an exceptional story. To use the example from Tupche Village Panchyat in Nuwakot district, it is the total transformation of the small farmers and their socio-economic context that is taking place there in the last few years.

The village Panchyat represents one of those regular hill villages with a mixed wet and upland farming systems based on subsistence agriculture. The population is an immense heterogeneity consisting of caste Hindus like the Bahuns, Thakuris and the Chhetris, the untouchable caste groups like the Kami, Damai and Sarkis and a large segment of autochthonous and Mongoloid Buddhist Tamangs, the last constituting the single largest group in the

village.

Economically too it is one of those regular scenes; in local reckoning only 20% of the people have enough land to support them for the full year and are considered prosperous. The rest including 24 landless households cultivate less than half a hectare and can provide for themselves for only half a year or so and the balance has to be made up by an assortment of alternatives like working for richer neighbours in the village, working on development projects in the village if there are some occasionally, or staging an exit from the village on short-term or long-term migration to work on project sites in other parts of the country or in India.

For the last three years development process of the village have been revolving around the Small Farmers' groups established under the Small Farmer Development Project of the Agricultural Development Bank of Nepal. The Project area comprises of two adjoining Village Panchayats and in the Tupche Village Panchayat along there are nineteen SG groups with a total membership of 366 persons including twenty female members. Since each male member mostly represented a household in the village the population covered by the Project has been quite sizeable. Since the group members obtained individual project loans on group liability basis the groups consisted of mostly trusted friends and relatives in the beginning and did certainly exclude landless and smaller small farmers because they were considered a risk factor by the rest of them. But as the project Management stationed in the village guided them from success to success, they saw the latter not so much a risk factor any more. It was the estimate of the Project management in last year that the organisation of a few more groups would saturate all the small farmers population in the village, a small farmer being defined as a person owning 0.4 ha. of agricultural land or less. It is only recently that the Bank has decided to use a per capital income of Rs 950 per annum as the basis for identifying a small farmer.

One of the conditions of membership in the SF groups is that all of the members are required to be shareholders of the local cooperative society. As a result, of the 1120 shareholders in the cooperative society which also services the other three village panchayats in the area (two of them recent entrants accounting for only about 50 shareholders) 80 percent of them are small farmers, a definite contrast from other cooperative societies mentioned above. Sixteen different kinds of loan are available to the members

for projects such as livestock keeping, cereal crops, cottage industries, land buying, horticulture, vegetable farming, cash crop (potato) farming, insecticides, fertilizer and agricultural implements as well as other consumption commodities. Average number of loans per small farmer member has been three and in some cases there has been as many as five. It is the unsubstantiated but noteworthy claim of the project management that each longterm small farmer member has been able to increase his annual income by an estimated Rs. 1800 on the average per annum.

The small farmers' group are the basic institutions for planning in the village. Each member plans his individual projects and the group as a whole plan group project too. Both these projects are discussed by the entire membership of the group which are then presented to the project management for approval. The projects are then presented to the local cooperative society which in turn presents them to the local Agricultural Development Bank for financing. On the basis of the availability of funds which are seperately worked out for SFD Project each year on the basis of previous year's experience, the Bank approves or amends loan applications in the meeting of the Board of Directors of the District Cooperative Union in which all concerned agencies including the Bank are represented. For the curent year a seperate budget allocation amounting to 929,000 rupees has been worked out for loan to the small farmers with a total membership of 964 in the two panchayats.

Development projects of the SF groups are not limited to income boosting individual or group projects. They also have other projects to their credit. For example, they have constructed through the cooperative society a godown with 100 MT capacity, 20 loom capacity cottage industries building with a grant from the ADB/N, an irrigation canal with a grant from the Rural Development Project, a drinking water scheme with pipes from the Local Development Department and several successful forest conservation projects.

The smooth functioning of the Small Farmer Programme in the village owe much to the supportive role that the local village Panchayat plays in that direction. For many of the above projects representation to the government or the RD Project was made by the Panchayat, although it was assisted by the SF Project management also. Once the projects are obtained

the panchayat simply places them at the disposal of the relevant SF groups for their implementation and subsequent maintenance. In the case of the forest conservation too the panchayat framed rules to levy fines of 50 rupees on any trespasser 50% of which would be paid to the informer as reward. In another move it also requested to Government to desist itself from issuing permits to individual contractors for felling trees from the forests of its area.

The primary reason for such a conducive atmosphere is the leadership structure of the panchayat itself. Although only four out of eleven members of the village panchayat are small farmers and members of SF groups the entire leadership is beholden to the small farmer majority of the village for their support. The president of the panchayat is a member of small farmer groups himself. Before the inception of the project the village was indeed a scene of tyranny by a rich individual in the village. But this is now a thing of the past and a permanent transformation in the power structure of the village has taken place and put the small farmers in command.

The small farmer groups also function as the hub for other social development measures in the society. The members go through literacy classes, adopt improved health and sanitation practices (e. g. making and use of a private latrine is a must), practice thrift (all members have to contribute to group saving on a regular basis), introduce social reforms and adopt family planning. In one recent instance the SF groups last year observed a life cycle ceremony called Bratabandha (initiation of a boy into adulthood) on a community basis instead of the traditional individual basis. Each participant household could have the ceremony performed for a token expense of five to ten rupees where otherwise they would have gone into large debts in feasting their neighbours and relatives. This was a benefit which was availed not only by about 30 small farmer households but also by two bigger ones.

Similarly, in the area of family planning the condition of membership require that they should undergo vasectomy operation after the birth of three living children. But this condition hardly needs to be enforced any more because the members themselves take the initiative even before the permissible number has been achieved.

In sum, the story of small farmer development is not only a success story of an economic development programme but also one that ushers in a new and enhanced quality of life all the members concerned. It holds out the promise of being a new culture of development for rural Nepal.

Integrated Rural Development and Small Farmer Development : A

Case of Symbiotic Relationship :

The Tupche Village panchayat however also owes its success to the IRD project being implemented in the district. The input of materials needed for such individual or group project as livestock keeping, cereal crops, horticulture, vegetables farming, etc. has been made available to them through the provisions made at the district level by different line agencies within the frame work of the IRD project there. Similarly, projects such as irrigation canal and a recently completed cheese factory where the local people sold their milk have been undertaken also under the IRD project. The Marketing office of the IRD project has also established a weekly market in Tupche where increasing amounts of local produce such as textile, vegetable, fruits, and other daily necessities are marketed. The IRD project has also established a service Centre there from where services in the field of agricultural extension, vaterinary aid etc. are made available. The soil and water conservation office has done important conservation work to safeguard the canal project mentioned above. Therefore, local opinion has it that without the material and programme support of the IRD the SFD programme in Tupche or Karkimanakamana would not have been able to achieve that proportion nor that success.

This question however needs to be turned around too. One of the problems of Rusuwa Nuwakot IRD project is its nonabsorption syndrome. At the end of three years of the project life it had spent 66 percent of time but only 22 percent of estimated resource outlay. Granted the fact that the IRD project suffers from several serious bottlenecks like unavailability of of adequate manpower, relatively low level of motivation of the RD workers and the lack of adequate streamlining of administrative and planning process, the fact still remains that there is also the lack of permeative organisational structure to the project which would reach the maximum number of villagers nearest to them. The Small Farmers groups in Tupche and Karkimananakamana certainly has provided such a structure whereby each small farmer household in the village has been made a participant in the process of local

and personal development. As a consequence the demand for developmental resources has also recorded commensurate increase. The allocation of a separate budget of 929,000 rupees plus the cost of all the aforesaid projects undertaken in the village are testimony to this phenomenon. What is more, these small farmer groups also function as institutions at the local level responsible and equipped for an on-going process of amelioration of the quality of life of its members. Projects once undertaken are attended to and maintained. From this point of view it is the interest of the IRD that is augmented by the functioning of the small farmers' groups as much as the small farmers' groups doing better through a program of IRD in the area. It is simply a relationship of complementarity and symbiosis.

Some Implications for Expansion of the SFD programme:

Because the SFD programme has much to offer potentially to fulfill the populist rhetoric common to the political and bureaucratic system like that of Nepal, temptation to expand this programme on a nationwide scale would always be there and intense at times. This has been borne out adequately by our experiences in the past. However, there are a few implications of this programme that enjoins upon all of us a special responsibility to be careful about if it were not to meet the same fate as a few good but aborted projects in the past.

First of all the SFD programme, the way it is organised at present is very demanding in manpower. It is a very supervision intensive programme requiring people with adequate training and PR capability to work intimately with each SF group and its members.

Secondly, Village and District Panchayat would continue to be an integral phenomenon of the Nepalese society. So if the relationship of the SF groups with VP in Tupche and similar other pockets worked out rather well, it does not however assure a success in a wider context. The fact that the SFD project could not pick up in Bidur, the district capital of Nuwakot district before it was brought to Tupche must not be forgotten. Recently, the ADB/N has come up with directives to constitute the SF Promotion committees at the village panchayat and district level (ADB 2036: 11-17). But the fact that this system has not yet gone through the test of time should not be lost sight of either. The relationship of a SF Project with a leadership structure which is the outcome of the stratified socio-economic

structure could have potentially explosive contents.

Thirdly, in Tupche and in other areas the programme was implemented in a situation of abundance of resources, primarily credit. But if the programme were to be given districtwise coverage, that abundance will cease to exist and competition for resources is bound to emerge. What kind of a class struggle this will lead to and what kind of an impact will it make at the district and national political arena are hard to predict.

Fourthly, integrated planning from below has to be the mainstay of a successful Small Farmer Development Programme. However, it is a very difficult phenomenon to achieve, given the kind of sectoral planning practice that still govern the national development planning in Nepal.

In short, the Small Farmer Development Project is a beautiful but very meticulously designed approach to development of rural poor. Therefore, its indiscriminate expansion is fraught with many unpredictable dangers—something that could undermine the very fabric of such a promising innovation.

Panchayat Development Land Tax—A Good Innovation that Failed:

In this connection the history of the panchayat development land tax experiment in Nepal should provide us with some lessons of experience. The tax was designed to stimulate a self-sustaining and self-reinforcing development process at the village level. It was levied in lieu of the regular land revenue and unlike it the tax was collected from all the farmers involved namely the landlord who paid 15% of his share of produce, the tenant who paid 3 to 5% of his share of produce and the ownertiller who paid 6% of the produce. Of the proceeds from the tax 35% went to the government as compensation for the loss of land revenue, 10% went to the District panchayat as district development fund and the rest 55% were retained by the village panchayats for local development.

As a result of this tax the village panchayats did get a lot of resources to play with about 100,000 rupees a year on the average. The concerned VPs did invest these new found resources on all possible development projects locally. If in some cases the resources were not properly used it was because of constraints external to the VPs themselves. Since this was a novel

experiment, there were also some built-in flaws. For instance, if the tenants who were not required to pay any tax under the regular land revenue system did not pay their share of tax there were no recourse provided in the rules. Another basic problem was that the Panchayats were deficient in planning as well as technical manpower capabilities which contributed to the wastage and misallocation of scarce resources. A constant monitoring of the problems by the Government and the gradual development of solutions would have taken care of the problems that faced the experiment.

As it happened, however, the Tax was introduced in twelve village panchayats in the district of Jhapa between 1964 and 1968 and stagnated there for almost twelve years before it caught the attention of the politicians at the national level. In keeping with the style of their populist rhetoric they decided to extend this programme to all the seventyfive districts of the country in five years' time and in the first year it was introduced in five full districts including the rest of the VPs in the Jhapa district.

Unfortunately, however, the Tax was extended to other districts without making even the much needed improvements in its structure as well as its environs. Even the preparation of the population in terms of provision of information was not done before the introduction of the tax into a new district. As a result confusion mounted and the Tax itself became a political issue in the political turmoil last year. In a bid to pacify the situation the Government then summarily suspended the Tax system in all the district in the country including in those twelve Village Panchayats where some kind of modus operandi for making it work had locally evolved overtime. In other words, the Panchayat Development Land Tax, an experiment potentially worthy of emulation by other underdeveloped agrarian countries, had to be subjected to an unfortunate end because of a course of events which was characterised by political neglect in the beginning, unpragmatic and mindless expansion of the Tax solely guided by opportunistic political rhetoric and an utter lack of political will to salvage it when it went through a crisis period. The paradox is clear; such innovative projects need political will to make it work but it happens to be such an elusive concept in a 'soft state' that it lets the programme down when it needs it most.

Conclusions:

From the foregoing discussion there are a few lessons to be learnt

and it is in this context that expansion of the SFD Programme should be considered.

Firstly, the chances of success for the Programme is highest only when it is implemented as an integral function of an IRD Project.

Secondly, if the story of the Panchayat Development Land Tax is any relevant to this Programme, uncertainties about its future continue to be there. Therefore, in order to evolve a modus operandi that is replicable on a nationwide basis its expansion should be undertaken in a manner that would make it harmonious with the existing system of development planning and administration in the country. It then follows that the test of the success of a SFD programme does not lie in its performance in a few selected pockets; the concept and programme organisation should be able to develop a viability whereby it can integrate itself with the regular programme formulation and implementation process in the country as a whole. The first requirement therefore is to extend the programme on a district-wide basis and to study the pushes and pulls to which the programme will be subjected in the process.

Thirdly, since the small farmers have limited ability to compete for resources against their stronger counterparts, separate allocation of resources, particularly, credit, should be made for them. This should go a long way in averting potential conflict situation between the two classes of farmers which could otherwise have disruptive consequences for the novel programme.

Fourthly, trained and motivated manpower plays a critical role in the success of the SFD Programme. Therefore, two-pronged effort has to be made: on the one hand careful calculation and training of manpower should be undertaken while at the same time search should be mounted to find out means of economising on it on the other.

Fifthly, a strong monitoring mechanism is an absolute necessity for this programme. If necessary expertise is not available in the country for the purpose it should be liberally imported from outside the country.

Most important of all however, is the question of politics. There should be no question that the SFD programme is designed to benefit the

disprivileged majority of the rural society and that allocation of scarce resources for it would naturally imply lesser resources for the more privileged. Such a programme undoubtedly need the backing of the national political will which, as stated above, is mostly an exercise in political rhetoric. Therefore, in order to provide this programme with assurances of stability even in the context of changing political climates, specific policies should be specifically designed and implemented so that the political transformation that took place in Tupche in favour of the small famers should be a recurrent phenomena wherever this programme is introduced. Such an arrangement is more likely to build necessary pressures from below which in a democratic set-up would have the strength to constrain the national political decision-making process to attend to the priorities of the local people.



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“Strengthening the receiving mechanism in the rural areas through the organization of Small Farmers Groups”

J. P. Joshi

Theme on the problem:

After a painstaking trek for one hour in the foothill and uphill we rested for a break in Village Balthali near the village tea shop. We rested under a big tree surrounded by the farmers. Beside the tea shop is the milk collection centre for that village where the small farmers of this village deposit milk two times a day. The small channel which flows in this village is reputed to be used for irrigation and also as a source of drinking water.

We were talking with the farmers and getting information from them up out/about their life and village the passerby women folk to other village were just standing behind the farmers and staring curiously at us and listening our conversations.

This is village Balthali, one of the villages covered by SFDP Khopasi implemented in Nepal. The talk with the farmers is documented below:

Q. Do you use improved seeds ?

A. We are preserving seeds from our own harvest since last six years. I remember that one of our friends brought it (improved variety) and we got it from him and further more we are not sure of getting timely supply of seeds from the cooperative so we set aside the seeds we need for different crops.

Q. Do you use chemical fertilizers ?

A. Yes, we use a little bit because we do not have enough money to pay for the fertilizers and furthermore we do not get credit from cooperatives in time of need. We use complex, complete and ammonium sulphate and others whatever is available in cooperative and we also use mostly the compost fertilizer.

Q. Is there any J. T. /J. T. A. and do you get any technical information from him ?

A. There is J. T. A. for technical information but we have not seen him since last six months, we do not know whether he is transferred or busy in some other village.

Q. What is the source of irrigation in your village ?

A. The main source is monsoon and we have a few old channels. So at the mercy of nature we get one or two crops only.

Q. What is the difference in yield between irrigated and non irrigated land ?

A. An old man who claimed himself to be eighty-one came in front of us and told that the yield is only $\frac{1}{3}$ as compared to the total yield of a irrigated plot. He was furthermore relating his hardship days in farm work.

We talked with the farmers a lot and they related their problem they have in livestock treatment and mortality of livestock specially buffaloes and problems of credit.

While talking with the farmers we happen to know that in their village six S. F. Groups were trying to implement an irrigation with drinking water project with the help of loan from cooperative. They hope to irrigate their land by improving the traditional channel existing in the village.

They were planning to attach a milling system and electrification system by using the water of the proposed channel.

However we found that it is an inter group project aimed at the self reliance for these groups which will increase their production with the use of water from the irrigation project.

In the afternoon we visited the group orchard project of a group of this SFDP project. All the members of the group have decided to start this project in the land given to them by the local panchayat in lease. In this orchard they have planted and different fruit plants. They used all their labour voluntary in the land preparation and other activities. We found the members busy in the construction of a shed where they plan to put 6/7 buffaloes and run it as a group project.

However the members were preparing themselves to get credit from the local cooperatives.

After our visit in that village in the late afternoon we treked down and we were showered by the rain and rushed for the shelter and thought nature is favourable to the small farmers with rain as the final touch for their blooming crop.

Background on SFDP/Nepal :

The above story i.e. my interface with the farmers of that village is depicted just to show how a village in a district near by Kathmandu valley (with SFDP project action just started) shows the multiple problems of small farmers in credit, input, irrigation, livestock problems, technical know-how and their efforts in individual setting to solve that problems in a village level accompanied by a group approach of self reliance which is just started. A village is a economy based on self reliance which tries to struggle for the development of their residents. Development affects and encompasses the economic, social and environmental situation of man in micro and macro level settings.

In fact people do not think and plan for development as such in totality but in household level they just think of improving their quality of life with an efforts to receive basic minimum requirements of life. They do think development in their own way and try to develop some perspective incorporating some risks which involves the use of new technologies for their improvement in the household level.

Even though it is a well established fact that the combined efforts of the governmental sector and action, participation and decision making process of household communities and specially of those of small farmers who compose a high majority leads to the development of any economy decades of experiment in planning process in South East Asian countries and Nepal saw a wide variety of development models of growth equation regional, sectoral, multi sectoral and balanced dev. approaches based on trickle down theory for economic growth basing more importance on GDP/GNP total growth etc.

However the main emphasis was laid on the development and strengthening of the institutional structure and the service so provided by the delivery mechanism were mainly shared by the rich and literate farmers. So the high percentage of small farmers who were supposed to get services were deprived of due to their numerous problems and basically the lack of effective organization of their own with their total participation.

Even though the services were there from the delivery mechanism the lack of effective receiving mechanism & organization of rural poor hampered the development and showed non operative trickle down affair. The initiation and development of village organizations like cooperative cooked like a pre-cooked model of rural organization at the central level without encompassing the needs and aspirations of rural masses and this could not promote the peoples participation in these types of organization as it is controlled only by the well-to-do literate and rich farmers.

So development must be thought in a participatory approach, a combined efforts of rural masses participating in development fields and efforts of the government at the top. This demands the need of effective receiving mechanism development of poverty stricken masses small farmers and in harmonisation and schrynonisation with the services of the delivery system of the different government institutions at various level. This is the main philosophy of the small farmer development project of Nepal started in Dhanusha (plain area) and Nuwakot (hill area) district since 1975 covering two panchayats as the target area for the total development of small farmer Landless and sharecroppers initiated by the UNDP/FAO/ASARRD project in a pilot project basic. The project concept has seen its extension in other hilly and terai district of Nepal and by now the total SFDPs in operation in Nepal are 24.

Basic Philosophy and Concept of SFDP/Nepal :

The main aim of the small farmers development project/Nepal is to increase the standard of living and economic status of the small farmers landless and tenants by forming them into different groups for making them working around a common economic activities. Simply speaking it is to strengthening the receiving and utilising mechanism of the group and harmonise it with the services of the delivery mechanism.

The basic philosophy and concept of the project is as follows:

(1) To organise the small farmers, landless labourers and tenants into grassroot groups composed of 12-15 members.

(2) To provide and support for their different economic income raising agricultural activities as well as subsidiary activities like crop production, cottage industry, handicrafts, livestock production and so forth to make them self reliant.

(3) To increase their capacity to raise their voices for different services provided by different line departments by the effective mechanism of group concept so as to match their receiving and utilising mechanism with the delivery mechanism (of line agencies) and to initiate different socio-economic programmes like health, sanitation, nutrition education, population education, family planning, water supply, adult education etc. with the support from different line agencies. In other words it is to make the small farmers come with their groups plans and in the long run the development of the concept of the "planning from below" for their development.

(4) To initiate a action cum research study so as to see the replicability in other areas and to make the small farmers programme as an integral part of districts regional as well as area programme without making it to be a duplicatory or competitive but a complementary and assistance programme focussing high attention on small farmers groups.

The programme provides high importance of field level workshop to get information as problem and feed backs from the small farmers so as to come with a solution seeking action and implementation with their effective participation in different fields.

The initiation of the group organizer/action research fellow is another vital part and novel idea of the SFDP. GO/ARF help in motivation of the organisation of group & in formulating the individual, group plans and in the long run to create an atmosphere of motivation for inter group action and village panchayat level plan with different innovative action and basically by making the farmers to take part in decision making.

Basic points on receiving and delivery mechanism:

As described in foregoing sections with respect to experience of the small farmers development project development demands the need of the development of effective receiving utilisation mechanism and its harmony with the delivery mechanism. The concept of development and its implementation must be people oriented and with the participation of the rural poor. Interventions and introduction of any programme naturally disturbs the existing situation which needs to be tailored with the patience attitude of the people for its acceptance and really the acceptance and involvement of people in the programme is a gradual process. However we have many experiences and many failures and I think mostly due to optimistic target fulfillment approach of development without involving the small farmers in the process of development we failed a lot in programmes which made us to be in vacuum between and ourself and target group. So development of small farmers demands the need of the organization of the small farmers group.

This paper is based on my experience in SFDP/FAP Nuwakot Dhanusha. In this paper I'm going to relate different steps needed for the organization & development of receiving mechanism and supportive actions needed from the delivery side and different aspects of both system with respect to reflection from the SFDP/FAP. In the end this paper tries to provide a basic model for the development of the small farmers in a village panchayat.

A brief highlight on both system will be of vital significance in this stage.

Delivery mechanism:

Delivery mechanism means the services and facilities provided by the government sector non government sector in a area. The services may vary with respect the ecology of the area (i. e. terai or hill variation may be there.)

The services may be agriculture extension services, credit, inputs, veterinary, health, family planning and other government agencies in the district level and bank and semi-govt. organization from a part of delivery mechanism where as village level panchayats credit and other cooperatives agencies like sub-centre, school and other voluntary organization providing a vital services in the village level also form the part delivery mechanism.

Receiving mechanism:

Refers to the informal organization of the small farmers, tenants share croppers divided into different groups with their purpose of demanding, planning, utilising and receiving the different services and facilities from the delivery mechanism. The group always and must be of the segment of small farmers, tenants share croppers i. e. of the rural poor because the middle and higher off farmers with their level of knowledge and other factors can progress individually with respect to their resources, risk taking nature, approach to new technology. Contrary to the rich the rural poor must find their development in the group spirit and group action to overcome their low capacity of risk taking, resourceless nature which makes them unable to work and develop themselves in individual settings.

Harmony between two system:

For the overall development of a village with a high concentration of small farmers household the harmonisation and schrynconisation of the both system is a most important thing. This refers to the over all development of rural life encompassing the individual, group plan, community plans where the role of the delivery mechanism is seen. However the help of delivery mechanism will lead to the different stage of group development in village level starting from small groups to inter group actions to the final stage where the village/panchayat will be working as a big association of group in the end which will shape and influence the whole rural and agricultural development of any village.

Some experience from Nuwakot/SFDP:

For the effective development of any village composing a high percentage of small farmers, landless and share croppers the stages from individual farmer to group development, from a few groups to ward level inter group action and finally to the association level is needed and here the role of catalyst agent with the help of line agencies at different level

is a must.

Before proceeding to these steps of group development it is better to throw light on the experience of Nuwakot project in this case.

The group organiser & action research fellow started his action in Tupche/Karkimanakamana panchayat in motivating the small farmers in forming themselves into various groups after the preliminary works of bench mark surveys has been finished. This painstaking efforts in motivating people was unable to produce any result very soon. The formation of group was a little bit slow.

The concept of group approach itself is a new idea which was unable to be convinced to the farmers. As the farmers are individualistic heterogeneous and more than that the structure of the society itself which is a non communist one could not permit this idea and further more it made some confusion to the farmers about the joint liability mechanism etc.

With respect to the group liability linked with the easy availability of loan from the cooperative society a few groups were formed and they found credit as a force playing behind the group formation.

The acceptability of any programme in the village with a low concept depends upon attitude and sense of feeling in them that the programme is for their well being. So the acceptability of the programme is always a gradual process depending upon confidence of the farmers to the programme.

The farmers in the same village were reluctant to form a group & were observing the operation going on in the newly formed group and in cases it took 12-18 months for the new group formation for which farmers were convinced by observing their fellow member in village doing different activities in the same village.

The acceptance of any new concept demands upon the level of understanding of the farmers and how it gradually develops is detailed down below as one of our experience.

*In Nuwakot project area we advocated the need for and advantage

of toilet pits in creating a healthy and good environment in the village. The motivation by ARF led to one group's construction of 16 toilet pits in a row besides a hill trekking route.

Group members frequently asked the ARF whether their families could also use the toilet pits. Farmers even constructed a toilet pit but never used it, thinking that it would smell bad when the ARF come to inspect it. Further more some group members thought the pits were to be constructed for the sake of the ARF on his visit to their homes."

The levels of understanding has been developed gradually in Nuwakot project and within this period the group formation covered almost all the target group of small farmers. The group farmers started the individual income raising activities with joint liability and further more activities like decision making by the group in different aspect, group meeting every month starting of the group nucleus project, inter group projects, group savings division of work responsibility among themselves and other activities like training, socio economy activities. So it has become a process where farmer with the help of line agencies, ARF and other are proceeding ahead for the total development of the project area. Thus the concept of group approach has seen its development with a two way process of learning part for delivery mechanism (line agencies) and receiving mechanism (groups) with a participatory approach of action in this project area.

A model for the strengthening of receiving mechanism in SFDP:

Small farmers development project idea is based on the over all development of small farmers with their own group effort leading towards their self reliance structure. This demands different steps and situation where the receiving mechanism, the group, develops from its starting point to the final structure of small farmers association. The main idea is to make groups plan, receive and implement their production, group and community programmes with their own plans the resources supplied by the delivery mechanism line agencies.

Development is a two way process combined with participatory action of two system receiving and delivery mechanism. So this section presents a model, in light of the experience of the ongoing small farmers development projects, for the strengthening of the receiving mechanism of the grass root

groups with supportive structures roles to be played by delivery mechanism.

A. Steps in group development:

(I) with respect to experience in the ongoing SFDP projects of Nepal 500 farm families are found in an average to be of the small farmers category in a panchayat. So in this case also the assumption is same. Chart I shows how the small farmers before the group formation are unable to receive the services and facilities from the delivery mechanism agencies. This is just illustrated to show the need of group organization at a village level.

(II) Group formation (see chart II)

(a) Intution of the cytalist agent GO/ARF is a must who is dedicated to work in the village level with the small farmers. He must be given intensive training on work procedure and rural behaviour. Role of change agent etc.

(b) GO/ARF to do preliminary household survey visiting each and every household to identify eligible small farm household with respect to the established norms on the definition of small farmers, landless, share croppers etc.

(c) Analysis of data and house to house visit by GO/ARF will be a learning process for him about the rural situation of the village and this will make him aware of rich farmers trying to sabotage the programme from the starting.

d) 10-12 groups only must be formed in the Ist. year compared of 12-13 members in each group which will provide enough time for the GO/ARF to supervise and follow up the activities of the group.

(e) For the effective strengthening of the groups and for making them cohesive small farmers must be encouraged to have regular group meeting to increase their group decision power. Group leadership development and division of work responsibilities among members must be encouraged.

(f) Group member to supported in their different economic income generating activities like crop production, livestock, cottage industry, handi-

crafts activities. The support of credit, inputs and services to be provided by the delivery mechanism line agencies.

(g) Under group decision the initiation of self help activities group savings, socio economic activities, supported by line agencies must be started.

(h) The 1st., 2nd. and 3rd year will see the formation of 40 groups, individual economic activities, group projects like orchard, cottage industry, bee keeping, handicrafts etc. The inter group action between groups in the spirit of cooperation and launching of the project must be initiated.

(i) For the effective execution of the job responsibilities and the development of group spirit different types of training must be devised and departed to the group members.

(See training section)

(j) Review of the group works, self evaluation must be conducted so as to learn from the group which is two way process of learning and teaching for both groups and line agencies which will be helpful in solving and revitalising the functions and activities of the group and line agencies.

(III) Situation of village after intergroup action (see chart III)

After 3 years the formation 40 groups covering the 500 farm families eligible for the small farmers will be seen in this stage. The inter group actions are already in start in different ward levels which is a base for the final stage of the association level in the village, ward level committee doing planning and programme formulation in summation for the small farmer of the ward areas must be initiated. The development of the ward level centre which will be like a meeting place must be encouraged while in the long run it will be like a entertainment venue, market place and the service centre (to be served-by trained small farmers) of the area serving 50/60 household of the area.

(IV) Formation of association: (see chart IV)

Formation of the association is the peak point in case of SFDP for the strengthening of the receiving mechanism of the small farmers in the village panchayat level. Two members each chosen by the ward level committee from each ward forming the association will have the main role for the matching exercise of the small farmer summation plan in village level with the district plan of the line agencies with the possibility of safe guarding the reservation of inputs, services for the small farmer of the panchayat.

For matching the overall plan of the village level the association has to play a key role in harmony with the village panchayat. The possibility of disharmonisation with the rich farmers also must be avoided by the associa-

tion. This makes the association to playing a big role with the advisory assistance of panchayat members, rich farmers, GO/ARF and other village level line agencies in matching the small farmers programme with the basic programme of the village panchayat.

(1) Situation of the village before the group formation:

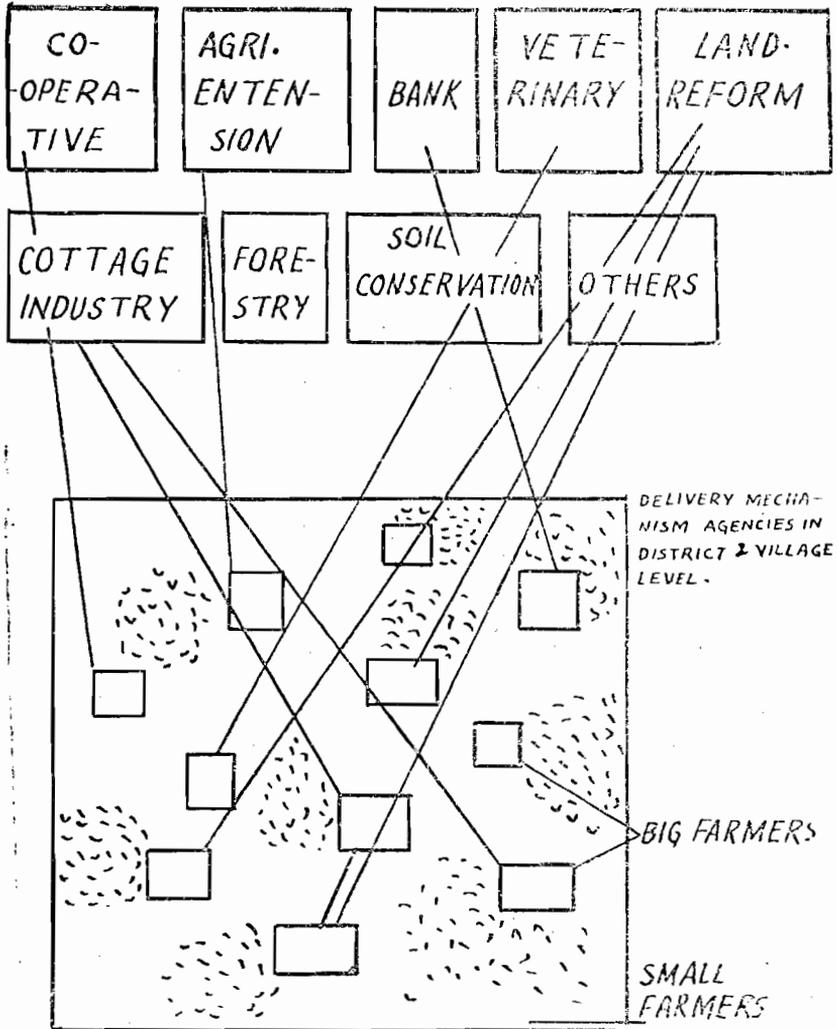
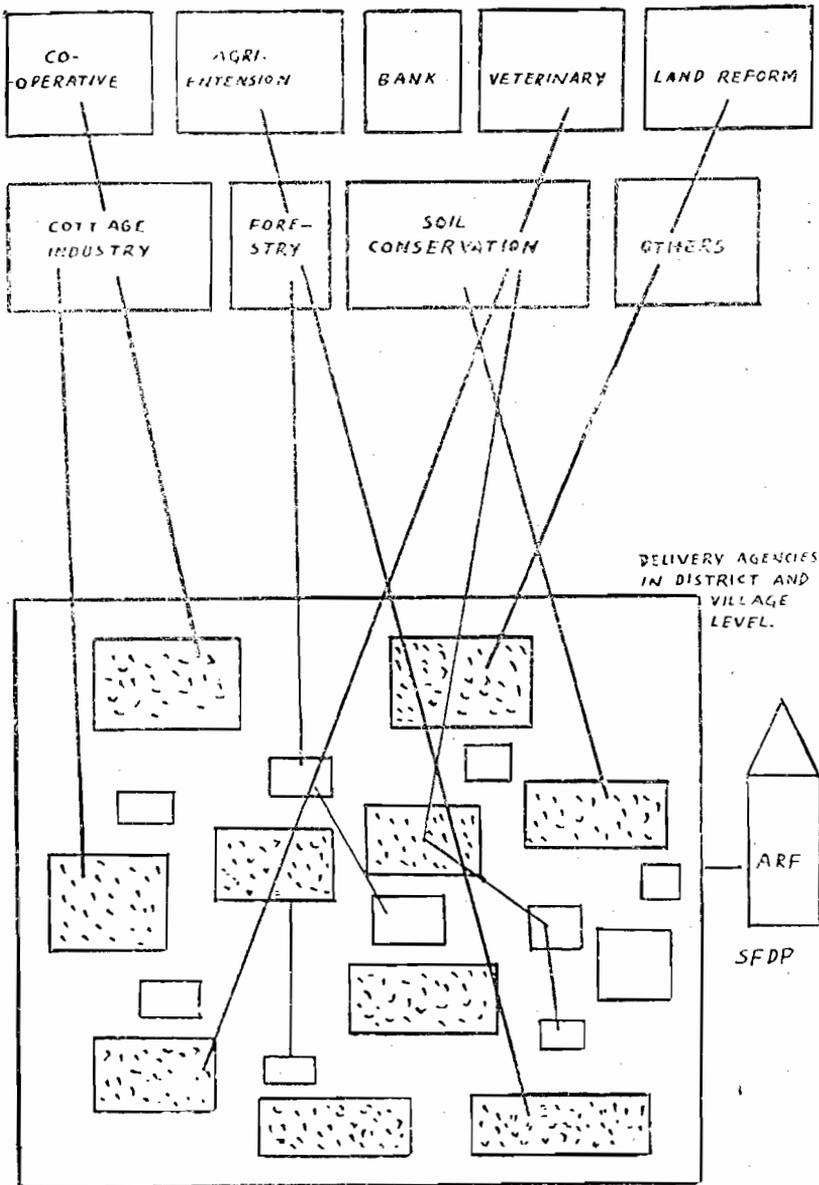


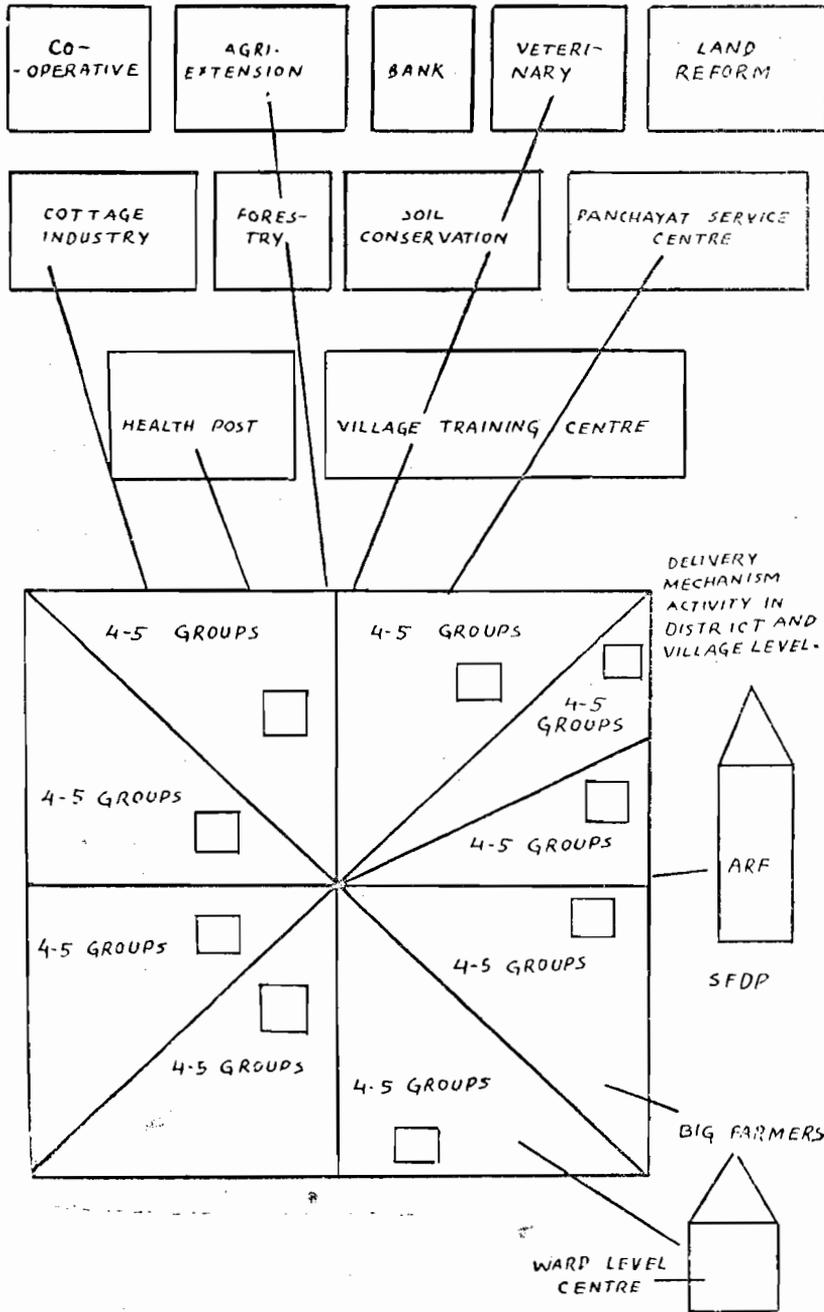
Diagram shows how the services of the delivery agencies are tapped mostly by big rich farmers only (denoted of square) and masses of the small farmers in a village panchayat are unable to receive the services.

(2) Situation of the village after the group formation:



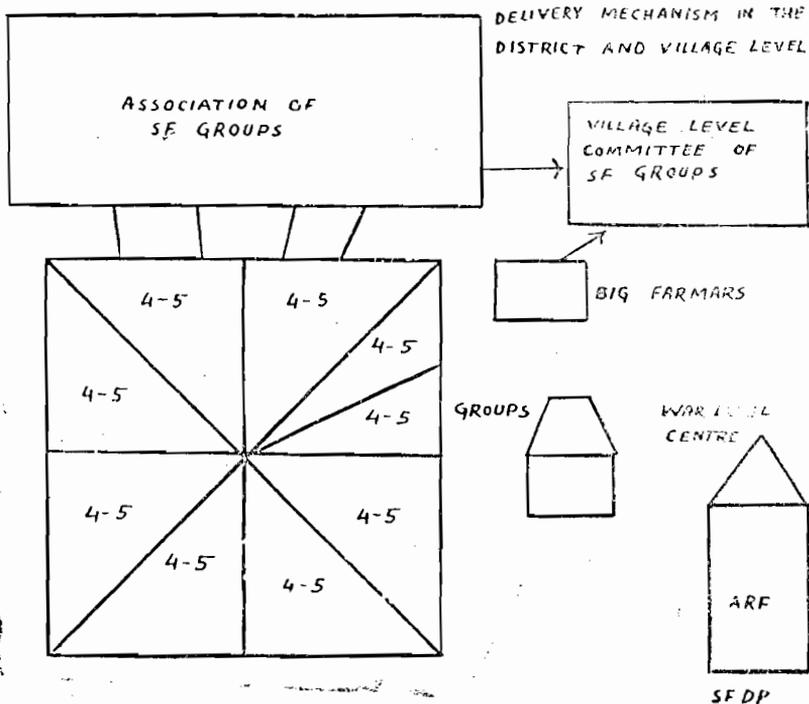
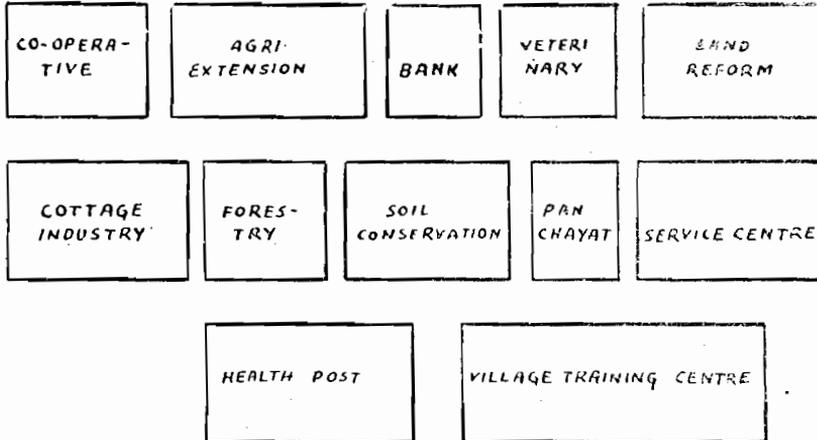
Formation of group through the motivation of action research fellow in a village leads to trends of group small farmers getting services and linkages with different line agencies. This creates a situation where rich and poor (in group) get the services from different line agencies. A harmony between receiving & delivery mechanism and between rich and poor.

(3) Situation of the village after the inter group action:



500 eligible SF household in village divided into 9 wards. The creation of the ward level inter group action in the village level forms a back ground for the association.

(4) Situation of the village panchayat after the association of small farmers:



Representatives of groups from ward, big farmers, panchayat, coop. and other village level agencies form a village committee and work for a village level programme comprising of individual group inter group community level projects and receiving the services from the delivery mechanism of district level.

B. Training to the Small Farmer:

Training and orientation programme plays a vital role in the strengthening of the group approach and the receiving utilising mechanism of the small farms in totality in different stages of group development. Any way the SFDP philosophy which targets the self reliance approach among the group members must be supported by adequate training to aid the illiterate group members for the effective operation and implementation of their income generating projects and basic concept of group approaches etc. for making the group a cohesive and workable in nature.

Experience in the Nuwakot/Dhanusha project has shown the development of the shared leadership pattern in the groups. For the effective performance and the better group organization the groups divided the work responsibility among the member by the decision of the group. Among the work responsibilities divided are apart from group leader, deputy / assistant leader, health, sanitation, compost pit, latrine making followup man, livestock and veterinary man, crop and insecticides man, accounts keeping secretary.

The effective receiving mechanism which means a way towards the self reliance in a group spirit & its linkage with different line agencies in district and village level for their problem solving actions the groups must devise the shared leadership pattern by dividing the job responsibilities in the preliminary days of SFDP and group formation. (chart 2)

The division of responsibility in itself will not solve the problem the members in each group must be given training in different skills so as to perform their duties i.e. the dissemination of knowledge among fellow members.

The training must be of a remedial first aid type in nature which means a new approach of training for the small man for his better under-

standing and memorisation and thinking the possibility of dissemination among fellow members. So the training must be of a practical nature with lots of field demonstration etc. This training programme must be designed by the appropriate line agencies which in turn is a challenge for them also who are more experienced in training the progressive farmers.

(a) Training the first 3 years of group formation and its action different training programmes may be devised to make the group effective in performing their function in different skills and for a better understanding of the group concept. The training thus devised may be as follows:

- (1) Crop production
 - paddy
 - wheat
 - maize
 - millet
- (2) Cash crop production
- (3) Horticulture / kitchen gardening
- (4) Irrigations & water management system
- (5) Group planning record keeping of group savings, group concept and dynamics.
- (6) Livestock treatment and livestock development.

This practical type of training must be for the duration of 5-7 days with the inclusion of different refresher courses to see the effectiveness of training and modification with respect to need.

These trainings will be the basic moving force for the development of the group concept and strengthening of receiving mechanism.

Apart from these general training members from each group can be trained on special skills like bee keeping, sericulture, cottage industry and other handicraft activities with respect to the need and functioning of group project.

(b) The next stage (see chart III) of training need will be in the 4th year of the SFDP in operation. By this time all eligible households are subdivided into groups and have started different activities. The development of intergroup action is already developed among different groups in mutual help, inter group project and others.

This stage demands the need of intensive training to be given to different group members selected from the ward level base. The selection of participants is to be done ward level committee out of the participation from different groups in one ward who have undergone training in different skills and performing effectively. The intensive training course must be of 4 weeks or more depending upon the nature of skills and the trainees must be equipped with a kit for performance or demonstration in the field. The training areas which is more or less same as of section (a) and to be designed by different appropriate line agencies in the district and village to develop a cadre of village level intermediate technicians supposed to work in the ward level and create a harmony in the group and create a inter group action help among 45-50 families divided into 4-5 groups.

With the skill development of the participants they will naturally feel the need of being paid as agricultural assistants under agricultural development offices of the district. But with respect to the nature of self reliance and self help motive of the training the payment for their services must be in the decision of the group or inter group committee and that of the household.

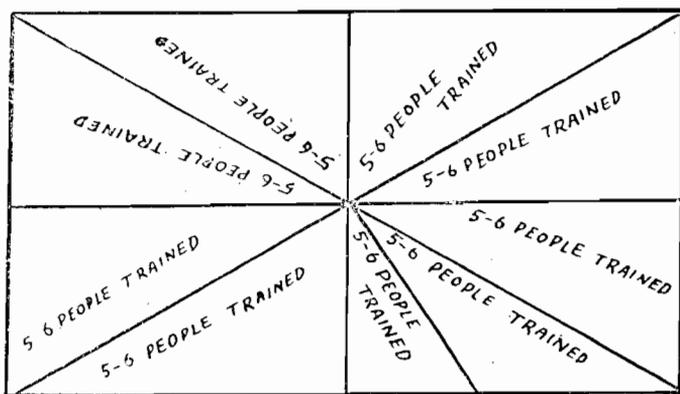
The traditional system of the payment to the witch doctor in the village, village postman and tolls in hand driven pully and suspension bridge shows that villages in Nepal have some traditional self reliance approach. So in this case also the payment system can be decided by the group member of the ward or village itself. In case of the need of revolving fund for medicine, insecticide, pesticides different groups in ward level must create a revolving fund out of the group savings. The following chart will show the inter action of the services between receiving & delivery mechanism after the training: (Example only for Agricultural extension)

District Level → District Agriculture office

Panchayat Level → JoT/JoToA./village sub-centre

Agriculture assistant

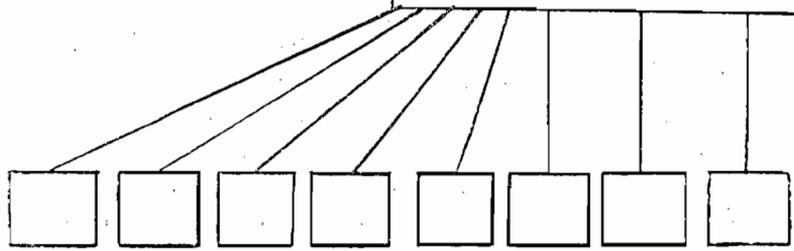
Delivery mechanism



Receiving mechanism

Provide service in the ward level

4-5 groups in ward level



Shared leadership
5-6 people trained

Evaluation system for the dev. of receiving mechanism:

Steps of group development with different process; the shared leadership pattern and training to the members followed by the training of intensive nature to the farmers in ward level must be supported by the review and evaluation mechanism of participatory nature for the effective development of the receiving mechanism of the small farmers.

Evaluation is a two way process by which both farmers and delivery mechanism line agencies can learn, improve and execute the programme and activities in a effective way.

(1) Review meeting:

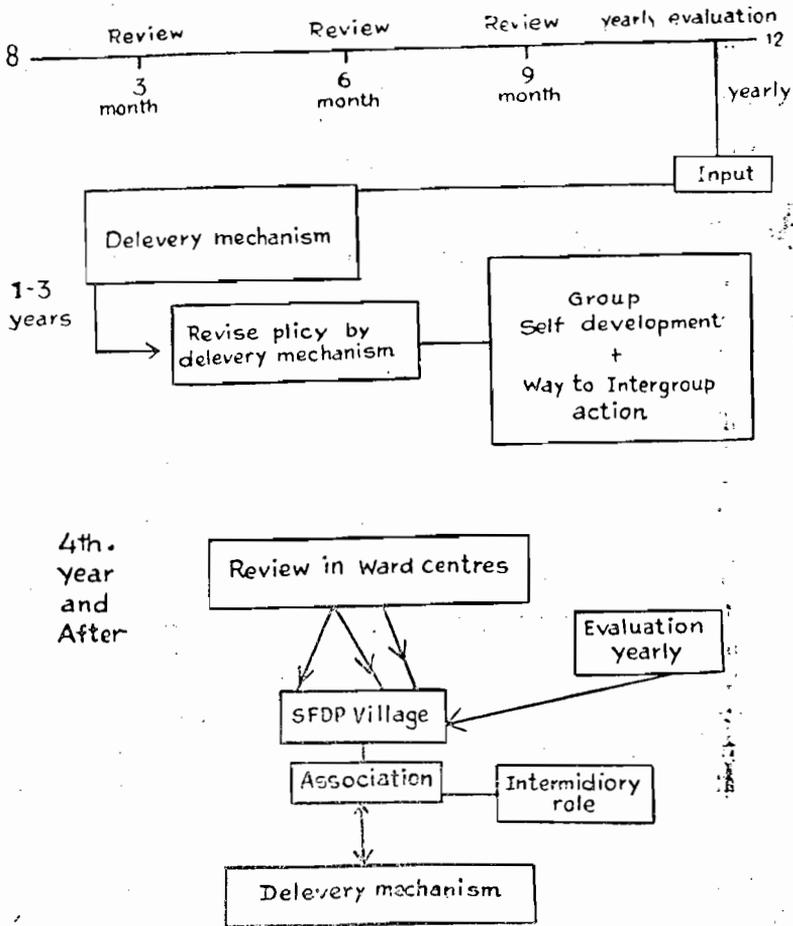
After the lapse of every 3rd month the catalyst agent the GO/ARF must initiate representatives from each group to participate and hold a review meeting. The purpose of meeting will be to review the situation and problem encountered by the groups and the solutions devised by the group decision. This will lead to environment of the exchange of ideas between groups and further more they can be guided by the GO/ARF and other line agencies in the village level. The out put of the review which will be a list of achievements and problems, solution will definitely help the groups to come closer and establish a link among themselves.

Once a year a project level evaluation must be conducted in the project village itself with the participation of the district & village level line agencies and representatives from different groups. This exercise is to review the yearly situation of the programme in action.

The evaluation which will be of the participatory nature with the initiation of group reports, field visit to the group area and then leading to the input of the list achievements, problems and solution will naturally be a significant thing for the reshaping of the policy and the implementation procedure of the different line agencies for the next year to come. Further more it will be come a venue where both mechanism (receiving & delivery) meet, face different problems of the small farmer with respect to their income raising project, group project community project and plan a strengthening of the services in totality from line agencies and the receiving mechanism trying to develop its own footing, with the coming of a large number of group

in 4 year and after that in the stage where there is the establishment of SF association the review and evaluation to be done in quarterly basic is supposed to be convened in ward level and whereas the association has to play a key rule in the 5th year. In higher stage of group development with association has to play a role of intermeditory for the execution of the solutions prescribed in the annual evaluation with the help of delivery mechanism line agencies. This will be the main basis of the strengthening of the receiving mechanism in the high stage of group development.

Evaluation Process



C. Ward level centre;

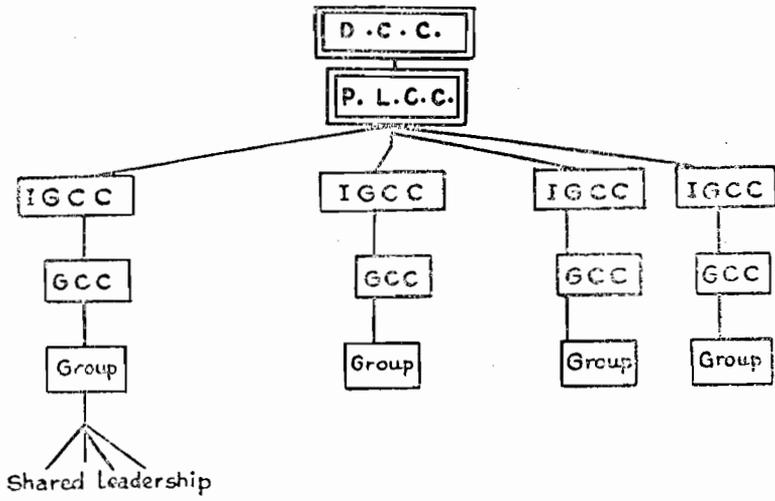
Inter group action which is one of the steps of the group development and toward the strengthening of the receiving mechanism of the small farmers will find its parts smoothened with idea of the ward level centre. The initiation of this idea is based on the FAP/areas where farmers have built group/inter group meeting places used for different types of meetings, education programmes entertainment activities plus the guest lodging facilities. This low cast building hall is built by the members pooling their labour and local materials.

This model finds that the building of the ward level centre will integrate different types of programme in the village/ward level for the support of small farmers groups. The intution can be done in the 4th year and the value will be the focal point for 4-5 groups in the ward for the meeting place in the initial days. With the programme like ward level review meeting, trained group members can use this place as a service centre, adult education, population education programmes motivational activities, recreation stage shows. Services by family planning offices of the districts and finally with a chain of activites the centre can become a focal point as a marketing centre etc. In the presence of this type of centre in each ward inter group action activities i.e. a step in the strengthening of the receiving mechanism of the small farmers can be seen meterialised.

E. Co-ordination mechanism for the development of the receiving mechanism:

With respect to the development of the receiving mechanism and members of the small farmers groups coming up an effective co-ordination mechanism must be developed from below to match, integrate and coordinate different activities and harmonise the relation of the small farmers with the big farmers in a village level. Individual household plans, group plans and community plans of ward level must see a matching excercise with the panchayat level programme and with the district level programme allocations.

Based on experience of the FAP/Nuwakot-Dhanusha the following tier of co-ordination mechanism is proposed.



Group level committee:

A group having the shared leadership pattern developed with responsibilities divided among members may find the need of some subcommittees for enhancing the group programmes and for the effective control among themselves. The committees may be for loan, repayment and group projects.

Inter group committee:

A village /ward which constitutes 4-5 groups of small farmers (45-50 households) needs a intergroup committee for making a effective harmony between the groups for their self help activities, village level programmes. The committee has to harmonise groups relation with the big farmers of the areas also. The committee may compose of one member each for every group and the coordinator to be selected by the representatives of the group themselves.

Panchayat level co-ordination committee:

With respect to the operational experience and for maintaining the harmony of small farmers group with big farmers and the need of integrating panchayat plan with the group plan in SFDP panchayat there must be a

PLCC body for the effective operation of the programme.

The body is supposed to harmonise the group plan with the panchayat plan and bring a total plan of the panchayat composed of community plan group plan area and individual plan. The panchayat level committee will be composed one representative each from groups based on ward level, chief of the village Panchayat, two active panchayat ward members.

The committee will invite GO/ARF, co-operative manager J. T./J. T. A. of the village panchayat as per the need as these agencies plays a advisory role in shaping the programme in the panchayat level.

However after the formation of small farmers association the matching exercise of the panchayat level planning will be done by the association. The association will have two member each from ward based groups and will have a dialouge with the village panchayat and other bodies in the village level.

G. Conclusion

The main concept of SFDP which is based on the group approach with self reliance and a effective development of receiving mechanism is a challenging issue for us. The project philosophy with its replicativn forsees the possibility of the marked shift of leadership and control of socio economic political situation in favour of the small farmers majority. The effective development of receiving mechanism and support from the delivery side in different aspects will eventually lead to a situation with possibility of small farmers federation in future. With the possibility of the marked shift in the situation and social structure poses a question before us are we fully committed and prepared for this situation for the overall development of small farmer otherwise it may look like a flash of plan in development and a lip service approach only.

To see in totality the development of the receiving mechanism depends upon not only in the change in policy the support and effective implementation of the programme by the line agencies but also the must important thing is the total commitment from our part how much we are committed for their development. It is a question regarding how far we as bureaucrats can change our perception, ideologies, concept for serving the cause of

small farmers. It is easy to plan and think of development but in implementation sets of problem forces us to ask ourself are we really helping the small farmers. Development has become conceived as an abstract or modern art but for small farmers it must look like a fine art. So the real development is only possible when we can equate our thinking and action with that of the small farmers.

TOTAL INCOME ASSESSMENT NUWAKOT

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	Paddy (Rs.)	Maize (Rs.)	Millet (Rs)	Wheat (Rs)	Family labour (Rs)	Animal labour (Rs.)	Additional income (Rs.)	Livestock (Rs.)	Total income
Project	2710	2400	1530	420	18255	660	15998	19720	61688*
Control	2700	600	360	-	10987	1380	8969	9600	34596*

* These figures do not include the value of food produced and self-consumed.

	Assessment of Total Expenditure				Net Income			
	Food purchased	Annual Expenditure	Cost of Cultivation	Total Expenditure	Total income	Total Expenditure	Total	Av. net income
Project (38)	9400	39304	13004	61708	61688	61708	- 20	- 0.53
Control (28)	11025	24185	11886	47095	34596	47095	-12499	- 446

Source: APROSC - Impact Study of SFDP (Nuwakot and Dhanusha Districts), Feb. 1979.

PURPOSEWISE LOAN DISBURSEMENT AND COLLECTION
IN THE SFDP AREAS

(From the beginning till 1978/79)

S.No	Purpose	(Rs. in '000)		
		<u>Disbursement</u>	<u>Collection</u>	<u>Outstanding</u>
1.	Cereal crop production	592	351	241
2.	Cash crop production	237	82	155
3.	Farm Mechanization and irrigation	1897	336	1561
4.	Agro-business (livestock and birds)	3785	812	2973
5.	Cottage industries	373	112	261
6.	Horticulture	113	1	112
7.	Others	457	174	283
Total:		<u>7454</u>	<u>1868</u>	<u>5568</u>

Source: ADB/N.

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Impact of SF-CP on farm output, net income and adoption of new methods

A Nepalese case study

-C.M. Rokaya

1. INTRODUCTION

1.1. Background:

As in most less developed countries (LDCs), agriculture is by far the most important and largest sector in the Nepalese economy in terms of gross domestic product (GDP), national employment, export earning and raw materials to industries. Approximately 93 percent of the total population relies on agriculture for subsistence; it alone contributes about 66 percent of GDP and nearly 80 percent of the total national export revenue is drawn from this industry.

Realizing that no head way can be made without developing the agricultural sector, this sector has been receiving high priority since Nepal has undergone planned economic development since 1956.

With an objective to accelerate the process of transforming the country's traditional agriculture into a modern self-sustaining one, the use of modern inputs such as improved seeds, fertilizers, chemicals and machineries has been very much encouraged in the past two decades by His Majesty's Government through the educational work of the extension service and the provision of other services such as the network of cooperative societies, village committees, the field net work of the Agricultural Development Bank, the Agricultural Inputs Supply Corporation and other related services.

Agricultural Development Bank (ADB) established in 1967 has at present, a working net work throughout the Kingdom with 138 field offices, four regional offices and central office in the capital. Besides its field offices, the ADB/N, runs 30 Small Farmers Development Project (SFDP) at present and plans to launch 180 SFDP in next 5 years.

It appears, however, that despite a lots of hard efforts in the past to develop agricultural sector, the growth in agricultural productivity has not been satisfactory. The statistics for some recent years reveal a disturbing situations. Population appears to be growing at about the rate of 2.0 percent per year while food grain production is increasing at a slower rate of about 1.2 percent annually which was far less than the 3 percent increase annually projected for the fourth five year plan (1970-1975).^{*} Dr. Bista 1976 reports that, "..... with the present 2.3 percent annual population growth rate and lower growth rate of food grain production, it is estimated that there will be a deficit of 93 thousand metric tons of food grains for home consumption in the year 1980."

One of the main reasons for the slow growth rate of agricultural production in the country is currently felt to be the fact that the small farmers who constitute the bulk of rural society could not participate in the development process (Rana. 1978), As a consequent their productivity could not improve, they remained poor and also despite the slow growth rate in agriculture, the disparity between big and small farmers became wider (Rana, 1978). The national objective of growth with justice did not seem attainable.

At present the main concern of the planners and policy makers is to bring the small farmers into the core of all agricultural development efforts. This involvement of small farmers in the developmnt process gained momentum with the launching of the small farm credit programme (SFCP). The first two such programme were launched in 1975, one in hills (Nuwakot district) and the other in the terai (Plain) - Dhanusha district. At present (by 1978/79) the number of SFCP is 30.

In Nepal, about 75 percent (Appendix 1.1, Table 1) of the farm population in kingdom operate holdings of up to 1.0 hectare in size. Only 8

* C.H. Anthol : Unpublished working paper, Agricultural Sector Assessment for Nepal, 1974.

percent of the population operate farms of 3 hectares and greater (see Appendix 1.1 - Table 1). One estimate suggests that the peasant farmers may represent more than 50 percent of the world's population.* If indeed peasants are so numerous, they may be expected to represent the major proportion of decision makers in a traditional agriculture, consequently, considerable attention will be given in this study to the various views concerning the behaviour of the peasant (the small farmers).

1.2 The problem:

There appears to be general agreement among policy makers and economists that, in order to transform subsistence farms into commercial farms, the injection of new agricultural methods into the peasant economy is most essential. The peasant farmers' weak financial condition is thought to be the constraint on the adoption of new methods and on increasing their productivity. The Small farmer credit Programme (in LDCs) seems to have launched based on the general proposition that the provision of cheap institutional credit to small farmers is positively associated with the adoption of new methods and thereby with increasing output and income of small farmers. However, there is no general consensus among economists about the role of institutional credit in the adoption of new methods and in increasing farm output and income of small farmers.

Some economists argue that non-economic factors such as social considerations and farmers' personality attributes are also important in influencing small farmers' adoption of new methods.

Nepal is one country which has introduced small farmers credit programme (SFCP) with the objective of inducing small farmers to adopt the new methods and thus raise their productivity. There is general optimism about the programme but experience in other less developed countries suggests the need for a degree of caution.

The present study was designed to evaluate whether or not the Nepalese credit programme is likely to achieve its specified goals and if not

*Rockfeller, J. D. (1970) "The challenge of population & Food," in C.R. Wharton (ed.), subsistence Agriculture and Economic Development, (Aldine company, Chicago, 1970).

how it may be made more effective. Are the social and attitudinal factors barriers to the adoption of new methods?

I.3 Objectives of the Study and Hypothesis:

The objectives of the study were:

- a) To assess the impact of institutional credit availability on:
 - i) farm output and net income, andthe adoption of new methods;
- b) To analysing small farmers' personality variables and examine their relationship with the adoption of new methods and borrowing; and
- c) On the basis of the findings to suggest Policy alternatives.

In meeting the above objectives it was intended to test the following hypotheses:

- a) The availability of agricultural credit to Nepalese small farmers was associated with increase in farm output and net income.
- b) Farmers who use the available credit facilities were more likely than those who did not adopt the new agricultural methods.
- c) The adoption or non-adoption of new methods could be related to farmers' attitudes to fatalism, to change and to risk.
- d) The adoption of new methods was Positively related to level of income and educational achievement of farmers.
- e) Farmers view toward credit affected their borrowing behaviour.

2. THEORITICAL BACKGROUND & CONCEPTUAL FRAMEWORK*

2.1. Theoritical Background:

Small farmers appear to constitute the largest fraction of the rural population in LDCs. To bring this section of the population into the main stream of agricultural development seems to be an important objective of planners and policy makers in LDCs in recent years.

One of the most dramatic and dynamic forces including change in traditional societies seems to be the New agricultural techniques. Although new technology constitutes a major dynamic force for the modernization of peasant

agriculture, its adoption has been resisted by farmers and this has led to what is called "Technological Gap". This technological gap is seen by the planners as a potential source of higher productivity. The meagre pre-adoption capital of small farmers is regarded as the main constraint to the adoption of the new methods by small farmers. The availability of cheap institutional credit along with modern input is considered to be an important instrument to overcome this constraint. The implicit hypothesis of the agricultural credit programme of LDCs seems to be that small farmers, will make use the credit to adopt the new methods necessary to increase their farm output and resource productivity thereby obtaining greater income and also increasing total national agricultural output.

However, some studies in LDCs show that the availability of institutional credit along with modern inputs does not necessarily induce small farmers to adopt new methods. The relationship between the availability of institutional credit and the adoption of new methods, output and income is not clear out. Social and personality variables such as attitude towards risk, to change etc. seem to be important factors influencing small farmers' decision to adopt new methods. It appears that the behaviour of small farmers with respect to the adoption of new methods is a complex matter involving not only economic factors, but social and personality factors as well. The decision to adopt or not to adopt the new methods is probably a result of the interaction of all these variables.

2.2. Conceptual Frame Work

The notions and insights distilled from the theory indicate that the diffusion of new methods into the peasant economy is necessary in order to increase food production and income of farmers. The theory also reveals that the new methods demand comparatively high capital outlays for the purchase of modern inputs. As such, without the availability of cheap institutional credit along with modern inputs the poor subsistence small farmers may be unable to adopt the new methods and so would be unable to increase their output and income. This implies that the adoption of new methods and farm productivity are, to a large degree, positively correlated with institutional credit availability. Intuitively the borrowers (the credit users) would be in a better position to adopt new methods than the non-borrowers. A positive relationship between availability of credit and small farmers' adoption of new methods and their productivity are, thus, expected. Investigation of this

proposition is one aspect of present study.

However, one school of thought suggests that the adoption of new improved methods by small farmers may not be determined solely by credit and input availability alone but may be the product of interaction of economic as well as social and personality (individuals beliefs, attitudes, educational level, etc.) variables. Small farmers personality variables such as attitudes toward credit, new methods, risk, and toward change together with income and educational level may well affect decisions to make use of institutional credit and to adopt new methods. Therefore, as justified by the theory, analysis of small farmers selected personality variables and their relationship with the adoption of new methods and credit use will form another aspect of the investigation in the study.

It is expected that personality variables are associated with the adoption of new methods. It is also expected that small farmers' personality variables such as the general attitudes towards institutional credit affect their borrowing behaviour.

3. METHODOLOGY

3.1. Study Area:

The small farmers credit programme (SFCP) selected for the present study lies in Nuwakot District, Nepal. It is one of the two first pilot programmes launched in 1975. The Nuwakot district is one of seventyfive administrative districts and lies in the central hilly region of the Kingdom, Nepal. In the district SFCP covers only two village panchayat (i. e. two village administrative units). The two panchayats are Tupche and Karkimaaakamana. For the purpose of the study Tupche was selected because of the homogeneity of its topography and climate.

The total area of Tupche panchayat is 31.9 square kilometers and the area under cultivation is 2950 ropanies (one ropani=0.05 hectare). The panchayat consists of both flat and sloping terraced land and contains irrigated as well as unirrigated farms. The main crops grown in the area are rice, maize, finger millet and wheat.

The total population of the panchayat during the study period was.

4,800. There were 854 households of which 498 (58.38%) were small farms (below 8 ropanies). The balance were households with farm sizes above 9 ropanies and the landless. The latter constitute 2.8% of the total households. Agricultural extension and land reform services in the area were introduced more than a decade ago.

3.2. Methodological Framework of Analysis:

A diagrammatic representation of the methodological framework developed for the study is shown in Figure 3.1, on the next page. The conditions required, assumptions made and the procedure followed in the analysis are discussed and explained in Appendix 2.1.

The objectives of the analysis consist mainly of two segments. These were:

- a) The investigation of the relationship between institutional credit, net income and the adoption of new methods, and
- b) The relationship between small farmers' personality variables and the adoption of new methods.

The first segment involved two approaches. The first approach was an analysis of changes within the sample of borrowers (for participants in the programme). The second approach was a comparison of the borrower and non-borrower groups. Significant changes in farm output, net income and the adoption of the new methods with respect to borrower group would imply that institutional credit is associated with these objectives.

The selection of one village panchayat as the study area ensure a high degree of similarity between farmers with regard to environmental conditions thus minimizing the difference in the various performance variables due to such conditions.

Perhaps the most convenient and direct way of examining the impact of agricultural credit on the performances of small farmers is to compare the loan borrower with similar farmers who have not borrowed. Thus, a simple experiment measuring the effect of institutional loans on small farmers' farm output, net income and

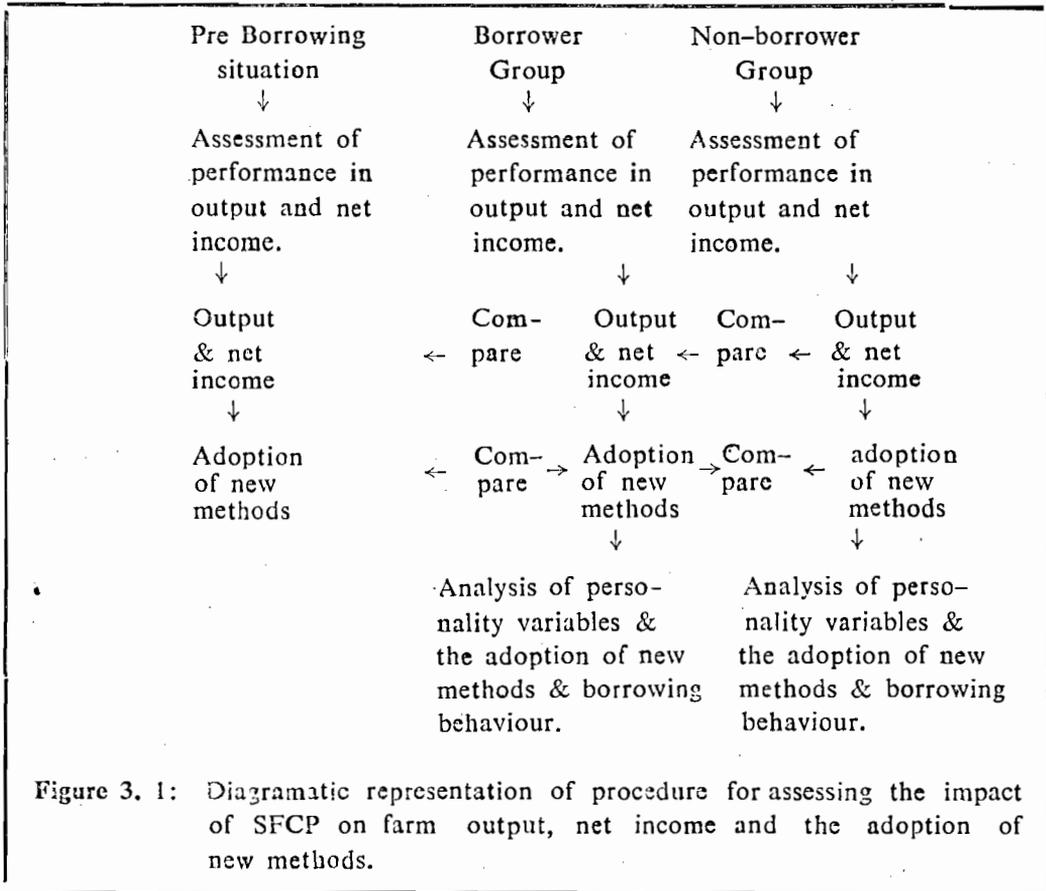


Figure 3. 1: Diagrammatic representation of procedure for assessing the impact of SFCP on farm output, net income and the adoption of new methods.

new methods were undertaken by examining the performance of two randomized groups from the same Universe, one with loans and the other without. Additionally, comparisons were made of the situations of the loan borrowers at two different points in time, one before borrowing and the other after borrowing. This latter comparison would enable the before borrowing performance to act as a check.

In case of the examination of small farmers' adoption of new methods behaviour and borrowing behaviour, the focus is on personality variables (defined there to include individual's beliefs, attitudes, educational and income level) and their relationship with the adoption of the new methods and borrowing behaviour.

Besides personality variables, various other social factors may have some influence on the adoption process but small farmers' personality variables are thought to be dominant factors influencing individual decisions to adopt the new methods.

3.3. The Survey:

3.3.1. The Questionnaire:

The objective of the field survey was to collect enough relevant data relating to the agricultural production process, small farmers' attitudes and other personal characteristics of both the borrower and the non-borrower (that is, the control group).

The questionnaire designed to collect relevant data and information was tested in a pilot survey and some modifications were necessary. In particular, it was found that farmers were unable to give information relating to:

- a) The number of days or hours worked in the field, and
- b) The cost of production incurred in the pre-borrowing period.

Accordingly, questions relating to these aspects were discarded.

Most of the questions (for example, relating to the characteristics of farm operation such as input-output coefficients relating to various main crops grown, information sources used, credit used) are straight forward.

In order to elicit individual attitudes and beliefs, a single question or several somewhat similar questions can be asked. However, in the latter case, there appears to be some difficulty in determining the weights to attach to the nominated measure of an attitudinal variable for the purpose of the construction of 'indexes'. For this reason it was believed that the use of a carefully chosen single question would be preferable. Therefore, the response to single questions rather than indexes of responses to several somewhat similar questions were used in this study.

Selection of these single question was guided by the relevant literature. For instance, questions relating to attitudes toward change, fatalism, inter-personal trust and like are based on Rogers (1959) and Hoffer et. al. (1958) while those relating to risk are based on Hagan (1968).

Rogers (1969) states that fatalism is a characteristic of the peasant sub culture and defines the concept as the degree to which an individual perceives a lack of ability to control his future. To elicit the Tupche small farmers attitude toward fatalism, the single question used was: "It is not fate that really matters, but to improve ones situation is in one's own hand. Agree/Disagree" The small farmers who agreed with this statement were expected to be non-fatalistic and vice versa.

The small farmers' general attitude toward new methods was of particular interests. To elicit the general attitude toward new methods the question was put; "What do you think about new methods?" Good/Bad? The expectation is that those who view new methods negatively would respond "bad" while those who have favourable views would respond "good". The response thus would represent the general attitude toward new methods.

Tupche small farmers' general attitudes toward institutional credit were also of interest in the study. The statement intended to elicit small farmers' general attitudes toward credit was: "Now-a-days, government credit is available locally at lower interest rates, so it is good to take a loan for production purposes. Yes/No." It was assumed that small farmers who agreed with the statement had a positive attitude toward institutional credit while negative response would indicate unfavourable views.

Farmers' attitudes toward risk or their willingness to accept it and the relationship of risk to the adoption of new methods was of considerable interest in this present study. While approaching this matter directly would be quite difficult, it is possible to examine certain indicators of small farmers willingness to accept the uncertainty of new methods. On the average, one who is willing to accept risk might be more innovative than one who is average to risk. As such, a variable reflecting the farmer's attitudes toward trying new methods may be one method of measuring the importance of the risk factor in decision making with regard to the adoption process. Therefore, one way to approach the issue of risk was to examine the small farmer's willingness to try something very new before other in his community had tried it.

Accordingly, the statement used was: "When new methods come in the village it is better to wait and see what happens when others have tried

them? Agree/Disagree” The negative response should indicate a willingness to accept risk while a positive response would indicate risk aversion.

Another approach was to utilize the following statement which was designed to determine the small farmer's risk preference in order to obtain additional profit: "I would rather take a chance on making a big profit than to be content with a smaller but more sure profit. Agree/Disagree." the underlying assumption was that an individual's response to the statement involving a value judgement would provide some insight into his attitudes concerning risk aversion/risk preference. It was expected that disagreement with the statement would indicate risk aversion and vice versa.

Much has been made recently of the unwillingness of farmers in LDCs especially "peasant" farmers to trust outsiders (Roger 1969, pp. 26-28). In order to examine Tupche small farmers' inter-personal trust the following question was used as a measure of an individual's willingness to trust outsiders (i. e. people who are foreign to the village): "Who do you trust more as a source of information about new things? Government people or villagers?" The question should elicit the extent of the farmers distrust of outsiders.

3.3.2. Sample, Sampling Technique and the Survey:

A sample size of 40 for each of the borrower and nonborrower group was selected. A complete enumeration was made of all the small farmers (104 borrowers and 266 non-borrowers, make a total of 370 farmers) of the five wards of the study area along with the farm size of each family.

Each group was then stratified into two sub-groups on the basis of farm size. The two sub-groups are:

- a) Those with farm size of under four ropani, and
- b) Those with farm size of four to eight ropani.

The stratification of the borrower and non-borrower groups into corresponding sub-groups on the basis of farm size, was done mainly with the objective of analysing the more homogeneous sub-samples. These size groups were represented in the sample in the same proportions, within both the borrower and the non borrower groups as they appeared in the total population.

After determining the sample size a table of random numbers was used to draw the sample. A list of farmers to be interviewed was then prepared for both the groups.

The 80 sample farmers were then interviewed during February to March 1978. Information relating to crop production was gathered from March 1974 to February 1975 period wet and dry season crops and November 1976 to October 1977 period dry and wet season crops. All the other information collected related to the survey period.

3.3.3. Analytical Technique Used:

The segments of the analysis and the types of analytical techniques used were summarized in Table 3.1.

Table 3.1.

ANALYTICAL SEGMENTS AND TECHNIQUES USED

Analytical Segments Description	Analytical Techniques Used
a) Comparison of out, net income resource productivity and the adoption of new methods.	Farm level accounts, productivity ratios, cross tabular comparison, statistical hypothesis testing.
b) Examination of small farmer's attitudes toward new methods, credit, risk, to charge, etc. Analysis of selected personality variables and their relationship to the adoption of new methods.	Percentage, cross tabular analysis, chi-square, Fisher exact probability and Kolmogorovsmirnov analysis.

Especially in the first segment, the farm will be viewed both as one enterprise and a combination of main individual crop enterprises. The analysis will, therefore, at times treat the whole enterprise and other times each of the individual main crop enterprise.

The statistical techniques used were regression analysis, t-test, and chi-square, Fisher exact probability and Komogorov Smirnov techniques. The former two techniques are paramatric statistical procedure while the latter three are non-paramatric procedures.

3.3. A Brief Note Productivity Measures:

Productivity measurements would form one of the principal techniques used in the study. Productivity is usually measured as the ratio of output to associated inputs. When productivity is measured in relation to a particular input it is called partial productivity, but when it is measured in relation to all the output taken together, it is called total productivity.*

4. Impact Of Institution Credit On Farm Output And Net Income

One of the main objectives of the present study is to assess the impact of small farmers' credit programme (SFCP) on farm output and net income. SFCP's impact on the stated objectives was assessed assessing the performance of borrowers (participant farmers) on the stated objectives against their pre-borrowing condition and against their non-borrower (non-participants) counterparts. The assessment was done in two steps.

- a) On overall sample basis without farm size classification, and
- b) On farm size basis.

Both steps involved statistical hypothesis testing. The technique used in former case is regression analysis and in the latter case the usual t-test (see Appendix 3.1, A & B).

4.1 Impact on Farm Output:

The detail assessment of the impact of the SFCP on farm output showed that the programme had a positive impact on farm output indicating that the availability of institutional credit was positively related to overall output. The borrower group's output per farm and for ropani of net cultivated area was significantly higher than both those of its pre-borrowing situation and of the non-borrower group, regardless of farm size (see Appendix 3--2, Tables 1,2,3 & 4). The primary factors expected to be responsible for the increased farm output of the borrower group's were examined. The analysis showed that among the primary factors, crop mix, area expansion and crop yield productivity, only the area expansion factor was important in making a statistically significant contribution to the overall output performance of the borrowers. In other words, borrower group's

significantly higher output over their pre-borrowing situation and the non-borrower group was only due to the fact that they were able to increase cropped area significantly over that of the pre-borrowing situation and non-borrower counterparts. The reasons for this significantly higher cropped area was that the borrower groups was able to double crop (and even triple in some cases) more frequently than they could in their pre-borrowing situation and could the non-borrower counter part group and thus their cropping intensity in both low and high land was substantially higher than their own pre-borrowing situation and the non-borrower group (see Appendix 3-2, Tables 5 to 14).

This frequent double or triple cropping might have been possible due to the availability of credit, however, the availability of institutional credit had no impact on crop mix and crop yield productivity. In absolute terms (i.e., without comparison between the borrower and the non-borrower groups) the yield produced by the borrower farmer was substantially below the potential yield indicating wide scope for increasing the crops yield (see Appendix 3-2, Table 15).

4.2. Impact on Net Farm Income

The analysis of the impact of the availability of credit on net farm income suggests that credit was positively related to overall total net per farm income and per ropani of net area of the borrowers were significantly higher than that of the non-borrowers. However, small farmers' ability to produce profit per unit of gross cropped area did not appear to be associated with the availability of institutional credit regardless of farm size, since the net farm income per ropani of gross cropped area was not statistically significant between the two groups (see Appendix 3-3 Tables 1,2&3). The probable reason for the significantly greater overall net farm income of the borrowers farmers over the non-borrowers was possibly due to their significantly higher cropped area due to multiple cropping (refer to above section 4.1).

The conclusion that can be drawn from the analysis is that the borrowers were able to obtain greater total net farm income (than non borrowers) by utilizing their total base land more intensively by taking multiple crops. However, their efficiency in producing profit per unit of cropped area was not better than the non-borrowers. This indicates that the borrowers were on better in the efficient use of inputs per unit of cropped area than nonborrowers.

5. Institutional credit, farmers' personality factors and their relationship to borrowing behaviour and the adoption of new methods.

5.1. Credit and Adoption of New Methods:

One of the hypothesis tested in the study was that the availability of institutional credit was positively related to the adoption of new methods. The analysis revealed that the data from the study area did not support this hypothesis. It was found that neither the adoption of new high yielding varieties of crops nor the use of fertilizers was related to the availability of credit.

The availability of credit was not associated with the adoption of new high yielding varieties (NHVY) in the sense that borrowers' performance in the adoption of NHVY was essentially similar to that of the non-borrowers and before borrowing situation of borrowers. Regardless of whether they were borrowers or non-borrowers, all farmers devoted all or most of their land to traditional varieties rather than to NHVY (see Appendix 4-1, Tables 1,2 & 3).

The analysis also showed that the availability of institutional credit was not associated with the use of chemical fertilizer. The difference in the amount of fertilizer used per ropani of cropped area between borrowers and non-borrowers was not significant indicating that the groups were essentially alike in this aspect. In addition, the amount of fertilizer used was small in the absolute terms (see Appendix 4-1, Table 4 & 5). There would appear to be under investment in crop production despite the availability of subsidized institutional credit.

5. 2. Small Farmers Personality Variables, Borrowing Behaviour and Adoption of New Methods :

5. 2. 1. Attitude Toward Change & New Methods :

On the basis of the theoretical insight it may be assumed that fatalism is an attitude which might be expected to inhibit the adoption of new methods.

Majority of the small farmers of the area were fatalistic. 77 percent of the respondents disagreed with the statement, "It is not fate that really matters, but to improve one's situation is one's own hand."

The analysis indicated that fatalism was not associated with education and income level. As a matter of fact the poorest farmers in the sample were not significantly more fatalistic than their wealthier counterparts.

The analysis showed that the fatalistic farmers exhibit considerably less knowledge about new methods and were also less motivated to learn about such methods. However, the (fatalistics) were not significantly less likely to adopt new methods indicating that fatalism was not associated with the eventual adoption of new methods.

The findings thus contradict the postulation that fatalistic farmers would be less willing than non-fatalistic farmers to entertain the notion, the adoption of new methods will improve their situation.

The data showed that 48.57 percent of the sample farmers view new methods favourably. The remaining 51.43 percent hold negative attitudes toward the new methods. The likelihood of positive/negative attitude toward new method was not found to be associated with income or educational level.

Analysis of the data indicated that small farmers' adoption of NHYV, use of fertilizer and chemical, was not related to their overall attitude toward new methods. The finding thus seems to be in opposition to the general contention that attitudinal variables may affect adoption of new methods.

Attitude Toward Risk:

It was found that a majority (62.86%) of Tupche small farmers were risk averters. Risk aversion was an important factor influencing small farmers' decisions to try new methods; risk averters are reluctant to try new methods and were less likely to adopt them.

Attitude toward risk was associated with income level. The analysis indicated that as the small farmers' level of income decreased he had a greater tendency to be cautious in using locally untried new method and they were less innovative

A further finding was that the majority of small farmers (61.43%) preferred to smaller but more certain income than the bigger uncertain income. This suggested that small farmers of the area were more concerned with risk of not surviving by not

meeting subsistence needs.

These farmers were significantly less innovative than the ones who preferred bigger but uncertain income.

Small Farmers' Inter Personal Trust:

Much has been made recently of the unwillingness of farmers in less developed countries, especially "peasant" farmers' to trust outsiders (Rogers, 1969).

It is expected that the farmers who distrust outsiders would more frequently rely on local people as a source of information about new methods than would the farmers who trust outsiders.

The analysis on this aspect showed that only 30% of Tupche small farmers trust outsiders while the majority (70%) distrust outsiders as sources of information about new methods. The analysis also indicated that the data supported the hypothesis that the non-trusting farmers more frequently concentrate on villagers as a source of information about new methods.

Small Farmers' Educational Level and Adoption of New Methods:

Welch (1970) and Khaldi (1975) argue that increased education may enhance a worker's ability to acquire and decode information about cost and productive characteristics of other inputs. As such, a change in education can result in a change in the use of other inputs including the use of some "new" factors that otherwise would not be used.

Based on this, it may be expected that a farmer's educational level would be an important factor influencing his decision to adopt new agricultural methods.

The analysis showed that the adoption of NHYV was significantly associated with educational level, but the use of chemicals (insecticides and pesticides) was related to educational level.

Further analysis indicated that a higher educational level seemed to be related to knowing about chemicals and how to improve yields in general.

There was a significant association between educational levels and income levels.

Income Level and Adoption of New Methods:

In some of the analysis it was found that farmer's attitudes toward such things as risk and their educational level were related to income levels. One may expect that these associations will lead to an association between the adoption of new methods and level of income. Such expectation is strengthened by the fact that, as new agricultural methods generally demand high capital outlays and so the financial capabilities of higher income level provides still another reason for expecting income to be related to the adoption of new methods. The data seemed to support these contentions. The results of the analysis showed that there was a significant relationship between the income levels and the adoption of new methods by small farmers.

Attitude of Farmers Toward Institutional Credit:

The analysis on this aspect showed that 57.15 percent of the sample farmers' had negative attitude toward institutional credit. On this basis, it appeared that the majority of small farmers of the area unexpectedly hold unfavourable (negative) attitude toward institutional credit. The result, thus, did not provide support for what seems to be an important assumption of the credit programme.

The analysis also indicated that farmers' attitude toward credit was independent of their income level, but was related to educational level.

One may expect that the borrowers hold favourable attitudes toward credit. However, surprisingly enough, it was found that the borrower farmers were not significantly more favourable toward institutional credit than the non-borrower farmers.

Small farmers' attitudes toward institutional credit affected the borrowing behaviour. The analysis of the sums borrowed showed that the actual amount of loan borrowed was substantially lower than the amount that would be needed in order to implement recommended farm practices. By the non-borrowers and for not borrowing more on the part of the borrowers indicated that a majority of the small farmers of the area view institutional credit as risky. They were reluctant to borrow more because of their perceived fear (risk) of getting into debt or loss of assets on account of credit. Risk involved in institutional credit thus appeared to be an important factor inhibiting borrowing behaviour.

In most cases members of the borrower group could borrow larger amount of

loan and so conduct more efficient farming operations and resource utilization, but declined to do so due to their attitudes and values concerning risk. Risk was an important consideration to those who borrowed as well as those who did not.

Risk as a deterrent to credit usage appeared to be associated with small incomes. Relatively wealthier small farmers tend to give non-risk related reasons for either not borrowing or for not borrowing more.

A considerable portion of small farmers did not borrow or did not borrow more because they lack knowledge about lending procedures and the amount required by them or were not familiar with the officials.

Conclusion and Policy Implications

Conclusion:

Based on the findings of the study the following conclusions can be drawn:

- a) The availability of institutional credit was positively related to farm output and net income.
- b) Among the primary factors responsible for increase output and net income the area expansion factor which was due to increased cropping intensity made significant contribution to increased output and net income. The borrowers achieved Cropping intensities of about 194 percent on average.

Crop mix and crop yield did not made any significant contribution to increased output or net income. Wide scope for increasing crop yield apparently exists, for the yield achieved at present is far below the potential yield.

- c) The availability of institutional credit was not related to the adoption of new methods by the small farmers of Tupche. The finding thus negates the general contention that the provision of institutional credit is positively related to the adoption of new methods by small farmers.

Despite the availability of institutional credit the majority of Tupche small farmers devoted their land to traditional crops. The proportion of land devoted to new high yielding varieties was small and there was under-investment in modern inputs.

- d) A majority of Tupche small farmers were fatalistic and held negative attitudes toward new methods. Fatalism and attitudes toward new methods were not found related to the adoption of new methods. However, fatalistic small farmers and those who held negative attitudes toward new methods used local people as a source of information about new methods and were less knowledgeable about new practices.
- e) A majority of Tupche small farmers were risk averters. Risk aversion was an important factor influencing small farmers decisions to try new methods; risk averters were reluctant to try new methods and were less likely to adopt them; they preferred smaller but more certain incomes to larger but riskier incomes. The lower his income the more likely a small farmer was to be risk averse.
- f) Most of the Tupche small farmers were very poor considering the fact that nearly 81.42% of the population had annual incomes of less than Rs. 500 per capita.

Farmers income and educational levels were related to the adoption of new methods and knowledge about them. Wealthier or more educated small farmers more frequently adopted new methods and were knowledgeable about them (new methods). Educational achievement was also related to farmers attitudes toward institutional credit. More educated farmers held more favourable attitudes toward institutional credit.

- g) A majority (70%) of Tupche small farmers distrusted outsiders (people who were foreign to the village). Farmers' interpersonal trust was associated with the sources of information used by them about new methods.
- h) More than 50 percent of the small farmers, regardless of whether they were borrowers or non-borrowers held negative attitudes toward institutional credit. Attitudes toward credit was related to educational level, but not to income level of farmers.

Small farmers' attitudes toward institutional credit affected their borrowing behaviour. "Risk" perceived in institutional credit and in crop production was the underlying factor inhibiting small farmers from borrowing or borrowing larger agricultural production loans. Risk was an important factor to those who borrowed as well as who did not borrow. Lack of knowledge about the lending procedure appeared another factor affecting small farmers' borrowing.

To sum up, the availability of institutional credit increases small farm output and net income through crop intensification. However, the availability of cheap credit does not seem to be a sufficient condition for the adoption of new agricultural methods by small farmers. The finding negates the general contention that the availability of cheap institutional credit is positively associated with the adoption of new methods by poor small farmers. Rather, personality variables (except small farmers' belief in change and attitudes toward new methods) seem important factors affecting small farmers decisions to adopt new methods and response to institutional credit programmes.

The evidence was that small farmers' income level (economic condition), educational level, sources of information used and attitudes toward institutional credit were factors which determine the adoption of new methods and use of institutional credit by them, at least in the context of small farmers of Tupche, Nepal. Risk perceived by small farmers has emerged as a significant determinant of the use of institutional credit as well as of the adoption of new methods. Income level influences risk attitudes (in the sense that risk attitudes are related to income level). The behaviour of Tupche small farmers of Nepal is in line with the proposition that the poorer farmers' desire to avoid risk is important in the adoption of new agricultural methods and use of institutional credit and the adoption of new agricultural methods by poor small farmers.

Policy Implications:

Availability of institutional credit was important in helping small farmers to increase their productivity through cropped area expansion. Therefore, the continued availability of institutional credit should help sustain the intensity of cropping achieved by the borrowers and should enable potential borrower to increase cropping intensity in future provided they are encouraged to borrow.

However, the limited total land base of small farmers and crop life cycles limit the role of area expansion in increasing farm output. The small farmers have small farm sizes in absolute terms and most of the crops (except some crops such as vegetables as mustard) have life cycles of about five months' duration. This would permit only two crops a year (that is, cropping intensity of only 200%). So, with the current cereal crop-oriented crop mix (crop composition) there is not much potential to increase cropping intensity beyond 200 percent, unless the crop mix itself is changed to include some short duration crops such as vegetables. Consequently, the implication is that

policy measures should also focus on other output increasing factors (crop mix and crop yield) while sustaining and encouraging the achievement of maximum cropping intensity at the same time.

Change in the current cereal-oriented crop mix to a cereal cash oriented crop mix would increase small farm output and not income substantially, Calkins (1976), in his study of impact of horticultural development on income, employment and nutrition in the district found that cash crops (such as vegetables and fruits) have higher levels of output per unit of land and other resources devoted to their production. A change from cereals to crops such as vegetables and ground nuts would substantially increase small farm income. Devotion of some proportion of land to such cash would thus be beneficial to the small farmers of the area.

However, the cash crops are more sensitive to market and marketing factors. Calkins (1976) found that lack of marketing and transportation facilities to be important barriers to the production of cash crops. In addition, such crops are exotic ones and the relevant practices would be an important factor retarding the adoption of such crops by the small farmers. Therefore, arrangement of proper marketing facilities and the diffusion of ideas about the cultural practices of cash crops would have to be considered in order to induce farmers to consider a cereal cash oriented crop mix.

There were indications that small farm output and net income could be increased further by increasing crop yield. Helping the farmers to overcome the present under investment and inefficiency in crop production and encouraging them to adopt the new high yielding varieties of crops would greatly increase the crop yield and thus farm productivity.

The foregoing discussion of the primary factors responsible for increasing farm output and net income and the findings in relation to the adoption of new methods by the small farmers all imply that, besides the availability of cheap institutional credit, some other important policy measures have to be considered in the small farm credit programme in order to induce changes in the directions that are felt to be desirable. The additional relevant policy measures would relate to the removal of factors that inhibit small farmers in altering the grain-subsistence oriented crop mix, the use of credit and the adoption of new methods. The paragraphs that follow focus on the policy measures that should be integrated with the credit programme.

The observation that small farmers who make use of direct sources of informa-

tion about new methods were likely to adopt new methods, implies that direct sources of information about new methods must be in contact with small farmers. Sufficient and accurate information from the direct sources, which are close to the point of origin of the new methods must be fed to the small farmers so that they learn a sufficient amount about the new methods to formulate the expectation that they will benefit from altering their present farming methods. However, the objective of diffusion of information about new methods into the peasant community is not likely to be achieved through the use of conventional extension workers if the results of this study are any guide. The majority of the small farmers of the area (70% of the population) do not trust outsiders as sources of information about new methods. A majority of small farmers rely on other villagers as a source of information about these methods. The policy implication for this sort of problem would be to train a few selected local personnel themselves for the extension work.

Training of local personnel (having a few years educational background) to replace the conventional government extension workers could prove an effective extension service to the community. Being a local person communication problems due to problems of dialect and the like should be less and a high level of contact with farmers should be possible

Such local agents would provide on their farms early field trials or experience with new methods and could thus set an example to their fellow villagers. Demonstration plots on their farms would be an additional means of assisting the farmers to develop realistic expectations about new methods and thus reduce the "risk" they perceive to be associated with new methods.

Such local trained personnel would also assist farmers to understand borrowing procedures and could also assist programme officials in loan collection and in other related ways.

Many things would be possible through using local people in this way. In particular, they would close the gap between the local farmers and government officials. Through them, not only could the information about new methods be diffused, but also many other types of information relating to the credit programme could be disseminated into the community.

In addition, such an approach would also lighten the pressure on the scarce governmental personnel. The local person trained for the purpose would also benefit,

he would be earning something from the government as well as being able to carry on farming with his family.

In addition to the above approach, organization of a local agricultural exhibition show could be another focal point of the extension programme. The role of such shows in influencing farmers' attitudes to new methods is obvious. They would provide farmers, not only with an opportunity to see what others have done, but also will bring farmers together, leading them to learn and to discuss the new methods.

Having observed the role of risk aversion in small farmers' considerations of the decision to adopt new methods and to borrow institutional credit, the elimination of "Risk" from their mind seems an another obvious policy objective which could help small farmers.

Improving the farmer's knowledge of new methods through the approach discussed in the earlier paragraphs would be a necessary condition to the alleviation of farmers' fears but would not be a sufficient condition. The elimination of the risk element completely from the minds of the small farmers undoubtedly will involve the provision of some mechanism for insuring the farmers against undue losses, perhaps specifically as a consequence of trying the new methods. Insurance schemes which would guarantee a certain minimum income in association with approved new methods would eliminate the possibility of disaster and make these methods more attractive to small farmers who cannot afford a crop failure. Such a mechanism would allow farmers to shift the risks to the insurance system and they would be protected against the element of risk in crop production. Such a scheme would stabilize small farmers' incomes and induce them to adopt new methods.

Such an insurance scheme, integrated with the credit programme, would also reduce small farmers' fears of borrowing to finance new methods by assuring his ability to repay his loan. As their investment in crop production is protected, such an approach would thus encourage small farmers to invest in crop production adequately (that is to overcome under investment) and help them to achieve greater efficiency in resource use.

However, for such a scheme to be successful, the new methods must be basically profitable and, if they are, the farmers must, in addition, be convinced that the new methods are indeed profitable. Here again the role of local personnel trained for extension purposes is in evidence. Insurance schemes accompanied by an effective

extension service would greatly increase the security of small farmers and would encourage them to adopt new methods. A good extension service and insurance scheme should thus be viewed as complementary to each other in any programme aimed at hastening the adoption of new methods by small farmers and raising their productivity.

The use of land as collateral and the risk inherent in crop production are probably important factors contributing to small farmers' fearfulness in borrowing institutional loans. Alternative approaches of securing loans, provisions for refinancing and flexibility in loan repayment or insuring loans which are defaulted due to crop failure would undoubtedly serve to eliminate much of the risk perceived by small farmers.

Arrangement of proper marketing facilities for agricultural commodities, especially for those which are perishable in nature, would also serve to eliminate risks from the minds of small farmers. The local cooperative society could help the small farmers in marketing their agricultural products.

Education (even of a limited nature) of farmers appears to be an important factor to be considered in the small farmers' development programme because it enhances their basic skills and concepts in relation to new methods and understanding of governmental services (for example, credit programmes). This suggests that a free educational programme (for about 3-6 years) for the children of small farmers who could not afford to educate their children might be justified. Such a programme would probably have positive impact on increasing agricultural productivity in the long run.

In addition, an adult education or training programme in the community would have substantial impact on agricultural productivity in the short run. Obviously, such programmes would involve some cost and would impose demands on the scarce educated man power in the country. However, the benefit from such programmes would undoubtedly be quite high, both directly and indirectly.

The shortage of educated personnel for the above purpose could be alleviated to some extent if the governmental officials working in the field could devote a few hours a day for this purpose of adult education. They could, for example, run night classes for adults. The students of National Development service (NDS)⁹ could also be encouraged to participate in such adult education campaigns in addition to their stated task

9. The postgraduate students of Tribhuvan University, Kathmandu, Nepal, are assigned one year's teaching work in village schools as a part of their academic course.

of teaching in the local schools.

Most of the policy measures suggested in the study (for example, training local people as extension agents, insurance scheme, a type of adult education campaign) would be new to the country, but they must be introduced if the objectives of raising small farmers' productivity is to be achieved. The urgency of this objective indicates the desirability of the early initiation of such programmes.

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A picture of Sales Section of Cottage Industry owned by a group of small farmers in Small Farmers Development Project/Tupche.



Mr. Chandra M. Pradhan, Director of ACTI (extreme right) briefing to Mr. Gary D. Adams about the workings of Cottage Industry in SFDP/Tupche.

The Grameen Bank Project Bangladesh Bank

-Muhammad Yunus
and
-Jowshan Ara Rahman

Finally Zarina became a begger woman. She tried to avoid it in all possible ways...but she could not help it.

Zarina saw nothing but struggle in her 45 years of life. She was married off at the age of nine. Two years after the marriage her husband lost his mental balance when he lost all his property through litigation. He abandoned the family and got lost. Zarina spent another six years with her husband's family. But when the harrassment from her brother-in-law became unbearable she came back to her uncle.

She was married off again within a year. Her second husband was a cruel man. He would beat her almost every day. He abandoned her when she gave him two daughters. Again she came back to her uncle. This time with two daughters.

Despite her resistance villagers married her off for the third time Her third marriage also ended up in desertion.

Zarina tried to make a living for her two daughters by making homecrafts. She was barely making it when her second husband came back and imposed himself on her. He became a burden on her rather than a support. When she could not find any other way to feed all the mouths she took to begging.

Whatever small amount she could save she would hid it between the pages of the Quran. She was trying hard to get back to selling her homecrafts.

Around this time she came to know about the bank loan. Initially she was afraid even to think about taking a loan from the "Government". She had heard they beat you up, take you to court, put you to jail. burn your house and many each terrifying things.

But she wished she could have some money to invest. She watched other women from her village take loan from the bank. It was so easy. They ask you to form a group of five members and sit together every week. A girl from the bank comes to them. She collects their weekly savings of one taka each. She also collects weekly instalments on their loans.

Zarina talkd to the girl She was very friendly. She explained the procedure. Zarina mustered her courage and formed a group. She became the chairman of the group.

She took a loan of Tk. 250.00. She invested the money in trading grocery goods in the neighbourhood. She paid off the entire loan in weekly instalment of Tk. 5.00. She did net have any problem. As soon as the first loan was repaid she took a second loan. This time she was bold. She borrowed Tk. 1,000.00 Now she is an independent business woman.

She encouraged her elder daughter to join a group. Her daughter took a loan of Tk. 200.00. She also paid it Back. Then she borrowed Tk. 800.00.

Zarina now finds no problem feeding all the mouths. She has repaired the roof of her hut. She is now dreaming of a new life for her, her children, and her grandchildren with whom She would like to share her little fortune.

Similar to Zarina's group there are 80 more women's group in Jobra and two other villages of Hathazari thenas of Chittagong District. There are 508 members in these groups. All of them are poor women like Zarina. Many of them, along with their children, have been desested or divorced by their husbands.

Of these 508 members, 81 have undertaken bamboo works, 47 are doing small business—like vending in the neighbouring villages, 176 are raising much cows, 11 have expanded their puffed-rice making trade, 138 are in cow and goad fattening, 3 in pottery making, 12 have started grocery and stationery shops at their residence. Total amount taken as loans by these women comes to Tk.7,00,000.00. They have

already repaid in weekly instalments over Tk. 3,00,000.00. Their combined savings in the Group Funds come to a total of Tk. 75,000.00. Members can borrow for any purpose from their own Group Funds with the consent of the remaining group members.

Jobra Grameen Bank Prakalpa (Rural Bank Project) was founded by Dr. Muhammad Yunus, Professor of Economics, Chittagong University, in the month of December, 1976. The Project started functioning in a village called Jobra adjacent to Chittagong University campus. Since then it has spread around in other villages.

Landless men form five-to-ten member groups and meet every week to take advantage of bank's credit facilities extended to them without the requirement of providing any collateral. They have, so far, formed over 200 groups with total membership of 1305 and borrowed a total amount of Tk. 25,00,000.00. Almost half that amount has already been paid back in weekly instalments. Number of activities in which they have invested this money includes manufacturing, processing, trading, agricultural production and services.

When I (J. A. Rahman) visited one of the weekly meeting spots of women groups, manibala Dey, a widow, whispered, "I had to collect firewood even when I felt drowsy we could eat only if we could sell the firewood. This work was hazardous, going up to the hills". But now she is a loanee, a member of Grameen Bank Project. Took a loan of Tk. 1,000.00 and purchased a cow. She also works in a Paner bar (Betel-leaf farm) and earns Tk. 1.50 per day during the season. She has become more mobile after becoming group members and repay the instalments regularly.

Kalpana, thought herself very fortunate to have become a member. After becoming a loanee, she started a betel-leaf vending business through which she earns livelihood for herself and five daughters. With deep sigh she said "What would I do with five daughters, I would not be able to get them married even God has not blessed me with a son, who would look after me during my old age. Now I would have some savings and also could use group savings fund in case of emergency".

Another lady lamented that she gave birth to five children and all of them died for lack of medical treatment. She felt by virtue of her group membership, she can now use the Group Fund when she needs to spend on medical help.

Sabiran of Jobra Centre used to work as domestic maid in the neighbourhood.

With the little wages she could not even provide one meal to her three children. She had to beg most of the times for more survival. "It was so humiliating to beg alms from another lady. I used to feel so small within myself". About a year back she became member of group No. 35. She took a loan of Tk. 100.00 and with this seed money she started selling dry fish in the neighbouring villages. She goes for selling the dry fish in the same houses where she used to beg. It is now a matter of pride for her that the women bring her a 'Piri' (low stool) to sit on instead of frowning at her. Sabiran attends group meetings every week and is repaying the loan regularly. "I am much benefitted through this project. I can provide two meals a day to my children, sometimes even with fish and meat". Her son goes to school. She dreams her son to be a "big person", not poor like her. Tears run down her cheeks as she says "nobody wants to lend money to the poor, because they are afraid of not getting it back. Grameen Bank Prakalpa is a God's gift for us."

Sufia Khatun is a member of Group No. 4 under Jobra Project. Her husband died 20 years back leaving behind 2 surviving girls out of 7 children. Finding no other alternative she took up begging. One stormy day Sufia could not go for begging. Children starved. She borrowed TK 25.00 from a lady bank worker and sold bangles, soap and hairpin in Jobra. That brought her a small profit. With this new experience and encouraged by the bank worker she took a loan of Tk. 50.00 from the bank. Within a fortnight she paid back the personal loan. Since then she has been in the business. She has borrowed another Tk. 350.00 from the bank. Till January 1980 she paid back Tk. 284 and put into her individual savings account Tk. 144. She wants her grandson (4 years) to be sent to school for proper education and for that reason she wants to expand her business so as to make more profit. "No food for an illiterate begger—one should have proper education to live a decent life" she said.

Through self-employment Sufia has achieved status in the village and earned self-confidence.

When Rural Economic Programme, Department of Economics, Chittagong University launched this action-research in finding a new format of banking to reach the unreachable, Bangladesh Krishi Bank readily agreed to set up an Experimental Branch in Jobra to experiment with Grameen Bank Project.

Around four-fifth of the rural credit still comes from the village money-lender. The process of ever-increasing landless and impoverishment finds a very effective vehicle through the operation of the money-lender. A person, who, for any reason,

has to borrow from a money-lender, stands very little chance to extricate himself from the burden of the loan. Most likely, he will spend his remaining life as condemned men.

Grameen Bank Project aims at designing an organisational framework which will provide reasonably dependable forum through which the banking system can extend credit to the disadvantaged segment of society without collateral, so that they can be protected from the grip of the money-lenders.

Encouraged by the success of Jobra, Sonali Bank offered itself to undertake the Project in the adjacent union. It started operating in January 1979. Krishi Bank expanded its operation to another area with another exciting experiment. This time to apply Grameen Bank Project in settling landless people on the barren hills of Betagi, Rargunia. Twin problems of naked hills and empty stomachs were merged together with the matchmaking of the bank. Bank provided the credit to the landless who turned the barren hills into green orchards and vegetable gardens. Sixty landless families have been settled in Batagi hills to turn 240 acres of empty hill into a green belt.

Recognising the potentiality of the Grameen Bank Project, Bangladesh Bank took up this project in collaboration with all commercial banks and the Krishi Bank to undertake the Project in a wider area to cover the entire district of Tangail, Hathazari Thanas of Chittagong. Bangladesh Bank launched its Project in June 1979.

Grameen Bank Project hopes to bring the bank to the door-step of many more persons who never had a chance to know what a bank is all about.

GRAMEEN BANK PROKALPA, BANGLADESH BANK
TANGAIL

Activity-wise disbursement of Loan up to Dec. 31, 79

SUMMARY

Items	Bhumiheen		Mohila		Total	
	No. of Loanees	Amount of Loan	No. of Loanees	Amount of Loan	No. of Loanees	Amount of Loan
1. Processing & Manufacturing	83	1,05,000.00	166	82,550.00	249	1,87,550.00
2. Trading	334	5,50,100.00	37	35,150.00	371	5,85,250.00
3. Peddling	19	18,300.00	69	30,100.00	88	48,400.00
4. Shop keeping	98	1,47,500.00	14	11,350.00	112	1,58,850.00
5. Live stock Fisheries	431	7,12,050.00	511	7,19,550.00	942	14,31,600.00
6. Services	178	5,26,200.00	--	--	178	5,26,200.00
7. Agriculture & Forestry	62	87,595.00	5	7,000.00	67	94,595.00
Total:	1205	21,46,745.00	802	8,85,700.00	2007	30,32,445.00

LIST OF ACTIVITIES

1. Processing and Manufacturing	Bhumiheen		Mohila		Total	
	No.	Amount	No.	Amount	No.	Amount
1.1 Bamboo works	5	2,500.00	91	25,200.00	96	27,700.00
1.2 Cane works	1	500.00	17	7,100.00	18	7,600.00
1.3 Pottary	16	15,800.00	3	1,700.00	19	17,500.00
1.4 Puffed Rice	24	28,200.00	11	7,750.00	35	35,950.00
1.5 Snacks making	—	—	—	—	—	—
1.6 Tailoring	3	5,000.00	2	4,000.00	5	9,000.00
1.7 Sugarcane & Crushing	—	—	—	—	—	—
1.8 Welding	2	3,000.00	—	—	2	3,000.00
1.9 Metal container making	1	1,500.00	—	—	1	1,500.00
1.10 Rickshaw workshop	8	15,000.00	—	—	8	15,000.00
1.11 Cold-drink making	3	3,500.00	2	1,600.00	5	5,100.00
1.12 Broom making	—	—	—	—	—	—
1.13 Milk products making	1	1,500.00	—	—	1	1,500.00
1.14 Furniture making	5	10,000.00	—	—	5	10,000.00
1.15 Medicine making	1	1,000.00	—	—	1	1,000.00
1.16 Umbrella Repairing	1	1,000.00	—	—	1	1,000.00
1.17 Clock repairing	1	2,000.00	—	—	1	2,000.00
1.18 Paddy husking	5	3,500.00	29	24,000.00	34	27,500.00
1.19 Pules husking	1	1,000.00	10	9,700.00	11	10,700.00
1.20 Cycle repairing	1	3,000.00	—	—	1	3,000.00
1.21 Slaughtering of Cows & Goat	2	2,000.00	—	—	2	2,000.00
1.22 Preparation of Misri	—	—	—	—	—	—
1.23 Making of hand-fane	—	—	—	—	—	—
1.24 Rice machine	1	3,000.00	—	—	1	3,000.00
1.25 Radio repairing	1	2,000.00	—	—	1	2,000.00
1.26 Lep-Tushak making	—	—	1	1,500.00	1	1,500.00
	83	1,05,000.00	166	82,550.00	249	1,87,550.00

2. Trading	Bhumiheen		Mohila		Total	
	No. of Loanees	Amount of Loan	No. of Loanees	Amount of Loan	No. of Loanees	Amount (Taka)
2.1 Rice	66	90,000.00	20	20,000.00	86	1,11,000.00
2.2 Pulse	4	6,000.00	-	-	4	6,000.00
2.3 Salt	6	9,000.00	-	-	6	9,000.00
2.4 Red Paper	5	7,000.00	-	-	5	7,000.00
2.5 Vegetable	32	37,500.00	1	250.00	33	37,750.00
2.6 Molasses	2	2,000.00	-	-	2	2,000.00
2.7 Fire wood	13	26,000.00	-	-	13	26,000.00
2.8 Timber	23	59,000.00	-	-	23	59,000.00
2.9 Chicken	3	3,000.00	-	-	3	3,000.00
2.10 Fish	22	26,100.00	-	-	26	26,100.00
2.11 Dry fish	20	30,000.00	-	-	20	30,000.00
2.12 Cattle	46	1,12,500.00	-	-	46	1,12,500.00
2.13 Seeds	1	1,000.00	-	-	1	1,000.00
2.14 Banana	1	1,000.00	-	-	1	1,000.00
2.15 Thatch	9	13,500.00	1	500.00	10	14,000.00
2.16 Onion	-	-	-	-	-	-
2.17 Tobacco	4	4,000.00	-	-	4	4,000.00
2.18 Betal Nut	12	14,000.00	2	900.00	14	14,900.00
2.19 'Pan' (Batal Leaf)	26	46,500.00	2	1,500.00	28	48,000.00
2.20 Soap	-	-	-	-	-	-
2.21 Fruits	6	9,500.00	-	-	6	9,500.00
2.22 Cloths	11	22,500.00	5	6,000.00	16	28,500.00
2.23 Bamboo	6	7,000.00	-	-	6	7,000.00
2.24 Milk	1	1,500.00	5	4,500.00	6	6,000.00
2.25 Fertilizer	1	2,000.00	-	-	1	2,000.00
2.26 Tea leaf	1	1,000.00	-	-	1	1,000.00
2.27 Broom	-	-	-	-	-	-
2.28 Potato	-	-	-	-	-	-
2.29 Goat	2	2,000.00	1	1,000.00	3	3,000.00
2.30 Coconut	1	2,000.00	-	-	1	2,000.00
2.31 Spice	-	-	-	-	-	-
2.32 Flour	1	1,000.00	-	-	-	1,000.00
2.33 Stationery	9	13,000.00	-	-	9	13,000.00
Total :	334	5,50,100.00	37	35,150.00	371	5,85,250.00

3.	Peddling	Bhumiheen		Mohila		Total	
		No. of Loanees	Amount of Loan	No. of Loanees	Amount of Loan	No. of Loanees	Amount of Loan
3.1	Bamboo Basket	1	1,000.00	5	2,000.00	6	3,000.00
3.2	Dry Fish	1	700.00	8	3,450.00	9	4,150.00
3.3	Second hand cloth	11	12,500.00	1	300.00	12	12,800.00
3.4	Cloth	-	-	6	7,500.00	6	7,500.00
3.5	Tobacco & Betal nut	1	500.00	2	700.00	3	1,200.00
3.6	Broom	1	1,000.00	-	-	1	1,000.00
3.7	Soap	1	1,000.00	-	-	1	1,000.00
3.8	Utencils	-	-	-	-	-	-
3.9	Grocery Goods	-	-	-	-	-	-
3.10	Stationery Goods	-	-	14	4,950.00	14	4,950.00
3.11	Pottery Products	1	1,000.00	15	2,500.00	16	3,500.00
3.12	Snacks	2	600.00	7	3,000.00	9	3,900.00
3.13	Sari	-	-	6	3,000.00	6	3,000.00
3.14	Bangle	-	-	5	2,400.00	5	2,400.00
Total:		19	18,300.00	70	30,100.00	88	48,400.00
4.	Shop keeping						
4.1	Grocery shop	48	72,000.00	7	7,000.00	55	79,000.00
4.2	Stationery shop	14	18,500.00	7	4,350.00	21	22,850.00
4.3	Medicine shop	11	19,000.00	-	-	11	19,000.00
4.4	Tea stall	18	24,000.00	-	-	18	24,000.00
4.5	Rickshaw parts	-	-	-	-	-	-
4.6	Iron shop	2	4,500.00	-	-	2	4,500.00
4.7	Bakery	3	8,000.00	-	-	3	8,000.00
4.8	Pan-Biri shop	2	1,500.00	-	-	2	1,500.00
Total:		98	1,47,500.00	14	11,350.00	112	1,58,850.00

5.	Livestock and Fisheries	Bhumiheen		Mohila		Total	
		No. of Loanees	Amount of Loan	No. of Loanees	Amount of Loan	No. of Loanees	Amount of Loan
5.1	Milch Cow	286	5,52,950.00	293	5,39,850.00	579	10,92,800.00
5.2	Bullock	38	71,500.00	1	1,500.00	39	73,000.00
5.3	Cow fattening	68	58,000.00	182	1,61,150.00	250	2,17,650.00
5.4	Goat fattening	27	12,100.00	35	17,050.00	62	29,150.00
5.5	Poultry farm	2	3,000.00	-	-	2	3,000.00
5.6	Fish fry culture	5	11,500.00	-	-	5	11,500.00
5.7	Fishing net	5	3,000.00	-	-	5	3,000.00
Total:		431	7,12,050.00	511	7,19,550.00	941	14,31,600.00
6.	Service						
6.1	Rickshaw	170	5,10,200.00	-	-	170	5,10,200.00
6.2	Barber shop	4	3,500.00	-	-	4	3,500.00
6.3	Irrigation pump rental	1	5,000.00	-	-	1	5,000.00
6.4	Newspaper distribution	1	3,000.00	-	-	1	3,000.00
6.5	Push cart	1	1,500.00	-	-	1	1,500.00
6.6	Cart	1	3,000.00	-	-	1	3,000.00
Total:		178	5,26,200.00			178	5,26,200.00
7.	Agriculture & Forestry						
7.1	Plantation	-	-	-	-	-	-
7.2	Vegitable cultivation	-	-	-	-	-	-
7.3	Water melon	-	36,550.00	-	-	-	36,550.00
7.4	Pan (Betal Leaf)	-	-	5	7,000.00	5	7,000.00
7.5	Paddy cultivation	6	7,600.00	-	-	6	7,600.00
7.6	Roboy crop cultivation	1	2,000.00	-	-	1	2,000.00
7.7	Fertilizer sappling	-	10,995.00	-	-	-	10,995.00
7.8	Labour	-	8,650.00	-	-	-	8,650.00
7.9	Banana suppling	-	2,600.00	-	-	-	2,600.00
7.10	Pond digging	-	3,000.00	-	-	-	3,000.00
7.11	Dam	-	2,000.00	-	-	-	2,000.00
7.12	Polithing bag	-	4,600.00	-	-	-	4,600.00
7.13	Well digging	-	9,600.00	-	-	-	9,600.00
Total:		62	87,595.00	5	7,000.00	67	94,595.00

Group Lending: Its Potential for Overcoming Rural Financial Market Barriers

— B. M. Desai

It is now well recognized that the poor rural households' access to formal Rural Financial Market (RFM) is unequal and disproportionate to the size of their credit needs. In recent years, therefore, various policy measures have been attempted to overcome this problem. Group lending is one such measure. This paper attempts to identify the conditions under which this policy instrument can overcome the barriers of the formal RFM in reaching the low income households.

RFM Barriers for Low Income Households

Low income rural households require proportionately more credit to meet their needs for consumption (RBI 1954, 1963, 1969, 1977). The demand for consumption credit being needy, they are willing to pay higher interest rate. Since loans for such needs are not provided by the formal credit agencies, they rely on informal agencies for such loans (RBI 1977). The consequent supply-demand imbalance for such credit leads to higher interest rate for these households in the informal credit market. These forces are multiplied further, because default risks and unit transaction costs in providing credit to such households are higher. (Bottomley 1962, 1963, 1964, 1965, 1971, 1975, Ghatak 1976, Long 1968, Krishna Raj 1979, Singh K. 1968, Wai 1957). Since the collateral provided by them is small and inadequate, their credit-worthiness is considered to be small. To overcome many of these problems, the informal lenders devise contractual credit arrangements which require their clients to sell produce and/or labour at prices predetermined by the lenders (RBI 1954, Chandavarkar 1965). As a result, not only the assumption of all agents being price "takers" is violated, but the markets themselves are alleged to be interlocked and interdependent rather than independent (Bharadwaj K. 1974, Bardhan et al 1978, Braverman et al 1979, Desai 1976, Raj 1975, Srinivasan 1979, Vyas 1977). The prices for the goods purchased/sold

by the lenders are hypothesized to be lower/higher than the free market prices. The "effective" interest rates are still higher for the poor households in the informal credit market. We further hypothesize that these forces cause shifts in the loan demand and supply schedules to the left, as is shown in Diagram 1.

Obviously, when the low income households attempt to enter the formal RFM they are considered risky and costly to serve. Even when interest rates are common for all types of clients, these households encounter higher non-interest costs of borrowing due to higher unit costs of providing innumerable documents, more visits and time in negotiating formal loans and the lower probability of success in these negotiations¹ (Krishna Raj 1979, Matthai 1978). Consequently, access of low income families to the formal RFM is not only skewed, but also shifts their unit costs of package inputs upward. This forces them to use inputs much below what is socially optimal, though their private efficiency is maximized (Diagram 2). Again, the loan supply and demand schedules in the formal RFM shifts to the left in a manner similar to that shown in Diagram 1. This is because, at a given interest rate both the agents are willing to transact smaller loan amount on account of higher unit transaction costs including unit risk premium for them.

The preceding discussion clearly shows that the main RFM barriers, in both informal and formal markets, for poor rural households are manifested through higher unit non-interest costs including unit risk premium. Further, we hypothesize that these are inversely related to owned farm size, extent of tenancy, extent of dependence on informal tenancy, credit, labour, and commodity markets, and also to the non-existence of formal markets for inferior products, female labour, and so on. In as much as such unit costs structure is influenced by institutional factors like land relations, land ownership inequality, etc. (Bhaduri 1973, Raj 1975, Srinivasan 1979), nothing short of institutional reforms can overcome the RFM barriers.

Yet another set of instruments can be visualized to overcome such cost structure. These could include providing risk cover funds to bad and doubtful debts and subsidy for higher managerial costs to the lenders, and preempting some supply of loanable funds to provide to the poor at concessionary interest rate lower than the market rate. While the former instrument has a potential to encourage a shift of loan supply schedule to the right, it is doubtful whether the latter instrument would shift the loan demand schedule, because interest costs form a very small proportion in the total costs. Moreover, simultaneous use of both these measures cannot possibly sustain

1. For a similar finding for other countries see Adams et al 1977, and Donald 1976.

Diagram 1 Hypothesized Impact of Non-Interest Costs on Loan Demand and Supply Schedules.

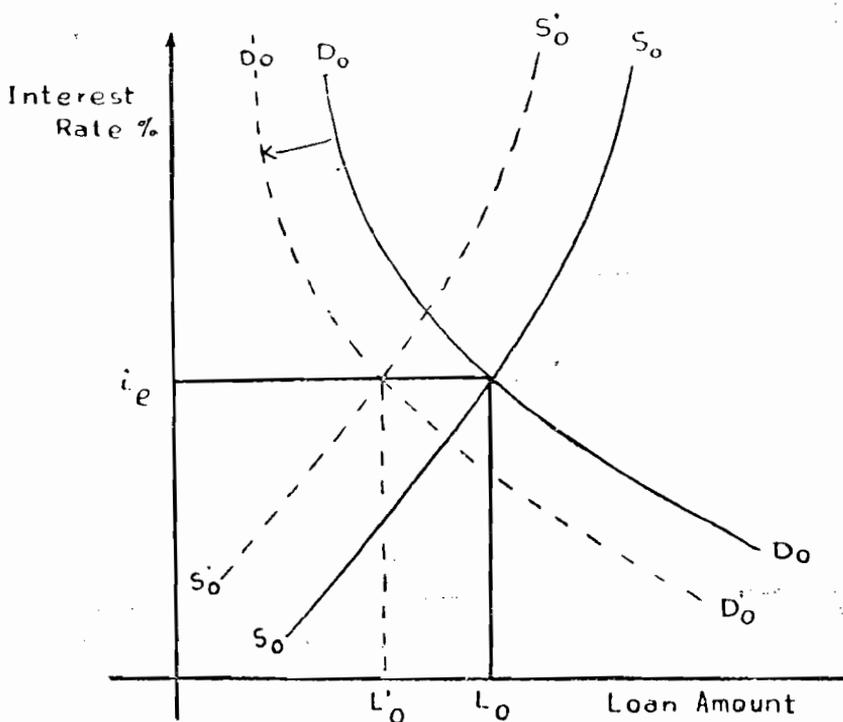
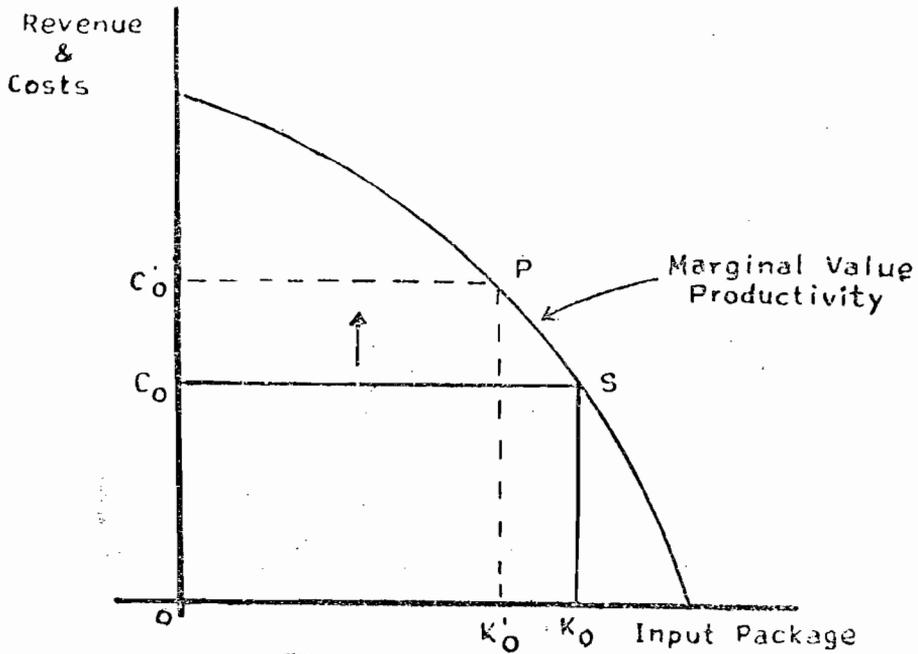


Diagram 2 Hypothesized Impact of Higher Unit Costs of Borrowing and Lending on Input Package.



S represents social optimum, P represents private optimum.

any favourable shift in the loan supply schedule associated with the former instrument. Also, both these instruments transfer the burden of higher unit transaction costs to the society and can encourage social inefficiencies. Group lending is yet another instrument which may have a potential to correct the cost structure described earlier for both the lenders and borrowers.

Group lending: Conditions for its Success:

Under this reform, loans are transacted between the financial institution and a "group" of individuals as one entity or agent. Such loans are given to individual members of the "group" for their exclusive use. Neither the loan nor the inputs/assets purchased with the loan is jointly owned/used by the members of the "group". However, these members stand as guarantors to each other to obtain the loan. Two other types of collaterals to transact loans are the "mortgage" of an immovable property and the "third party" guarantee, besides the hypothecation of movable assets and goods. In our context, the choice for one of these three types of collaterals would depend on the relative strengths of the potential advantages and disadvantages of these alternatives. These advantages and disadvantages can be categorized as influencing shifts in loan supply and demand schedules, since each of the three alternatives has associated unit non-interest cost for both the lenders and the borrowers.

Assuming, for the time being, the absence of disadvantages, the supply advantages of a group guarantee as compared to the other two collaterals can be hypothesized to include:

- (1) Lower default risks which would arise from the mutual pressure of the members of the same group. Such peer pressure and collective responsibility would invoke recalcitrant borrowers to repay, and thereby reduce the risk of default for the lenders. Neither the mortgage nor the third party guarantee would provide such peer pressure.
- (2) Lower unit transaction costs to the lenders that would result from making, administering and collecting one sizeable loan rather than a number of small individual loans which would have to be transacted if the borrowers were to give mortgage or a third party guarantee.
- (3) Scale economies implied in providing technical and other support services more efficiently and also in spreading scarce manpower to reach a larger number of

clients when organized in a group.

While the last two factors could easily be interpreted as influencing the supply schedule, the first one of lower default risk could also be interpreted similarly, since it implies providing lower allowance for default risks. Such allowance in the form of bad debts reserves is provided by some lenders.

The demand influencing advantage is the lower unit transaction costs to the group borrowers as compared to the mortgage or third party guarantee borrowers. Borrowers' cost in transacting every 100 Rupees group loan would be lower because they would save time, transportation costs, expenses incurred in obtaining the necessary documents and certificates before loan sanction, besides saving in costs required for giving mortgage or third party guarantee as a security for the loan.

In India, many banks have aimed at only two of the four potential advantages of the group lending innovation. One of these is the borrowers' advantage in transacting a group loan, while the other is the advantage of lower default risks. The former is a demand advantage, whereas the latter is a supply advantage. Despite such restrictive aims, we will conceptualize the conditions for the success of group lending considering all the three supply advantages and also the demand advantage of the innovation.³

From the preceding discussion together with the initial assumption that the innovation has no potential disadvantages, we can hypothesize that at a given interest rate both the supply and demand schedules for loans could be more to the right when group lending and borrowing innovation is introduced. It is in this context, group lending is an innovation.³ Depending on the extent of shifts in these two schedules the new equilibrium interest rate and loan amount would be determined. Three distinct scenarios can be hypothesized in this regard.

Scenario 1: Where supply shift is smaller than the demand shift ($SS < DS$)

Scenario 2: Where supply and demand shifts are matching or equal ($SS = DS$)

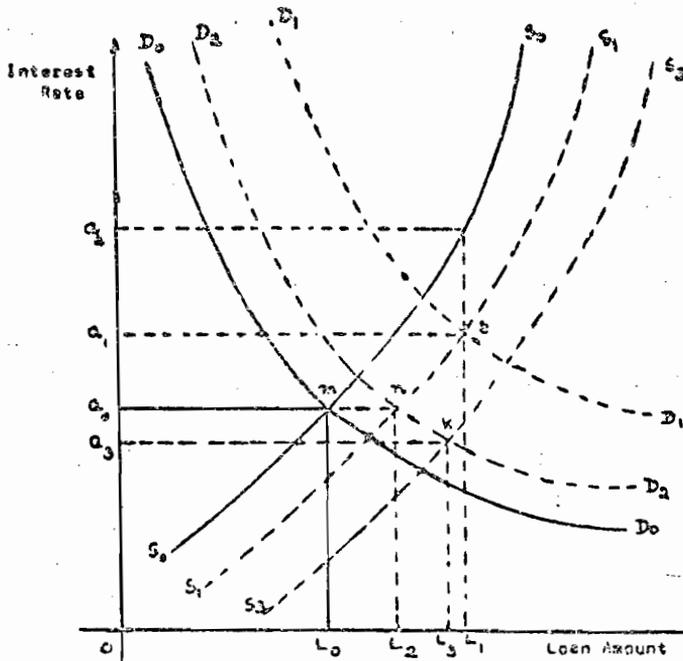
Scenario 3: Where supply shift is larger than the demand shift ($SS > DS$)

2. This choice has a clear merit in as much as the conclusions derived from a framework which incorporates all the four advantages would be reinforced more sharply if they were based on a framework incorporating only two of the four potential advantages.

3. For a similar definition of financial innovation, see Bhatt (1979)

Diagram 3 shows the impact of the introduction of the innovation considering these three scenarios.

Diagram 3 Loan Demand and Supply Schedules Before and After the Introduction of the Group Lending and Borrowing Innovation Under Three Scenarios



- Notes:
- (1) m represents the equilibrium situation prior to the introduction of the innovation
 - (2) t represents the equilibrium situation of Scenario 1 where $SS < DS$.
 - (3) n represents the equilibrium situation of Scenario 2 where $SS = DS$.
 - (4) k represents the equilibrium situation of Scenario 3 where $SS > DS$.

Before we introduce the potential disadvantages of the innovation into this model, we should clarify that even the Scenario 1 represents an innovation, despite supply shifts being smaller than the demand shifts. This is because the interest rate of Oa_1 under this Scenario is lower than the interest rate of Oa_4 at which only the new demand OL_1 can be satisfied if the supply schedule were not to shift from S_0 to S_1 .

Let us now introduce potential disadvantages to evaluate the "net" (i. e. Δ) impact of the innovation. On the supply side, these disadvantages can arise, for example, from higher probability of "collusion" among group members which would be counter productive to the advantage of lower default risk. Other supply disadvantages are higher costs in forming groups, and much thinner spread of manpower leading to lower repayment rate because of selection of untested new borrowers and poor supervision. On the demand side, the potential disadvantages can arise from loss of individual discretion involved in being a member of a group, and also from the individual costs of maintaining group membership. The main implication of these disadvantages is that they would shift back the supply and demand schedules to the left. We, therefore, introduce disadvantages to hypothesize positive, negative and zero "net" (i. e. Δ) shifts in each supply and demand schedules. These are presented in a 3×3 matrix in Table 1 in which "Yes" and "No" are marked to convey whether group lending is an innovation or not.

Considering all the nine cases, we can identify the following "necessary" and "sufficient" conditions which must hold for group lending to remain an innovation:

- 1) Necessary condition: $\Delta DS > 0$ or $\Delta SS \geq 0$
- 2) Sufficient condition:
 - (a) $(\Delta DS) (\Delta SS) > 0$
 - (b) If $(\Delta DS) (\Delta SS) < 0$, then $|\Delta DS| > |\Delta SS|$ or $|\Delta SS| > |\Delta DS|$ constitute the sufficient condition.

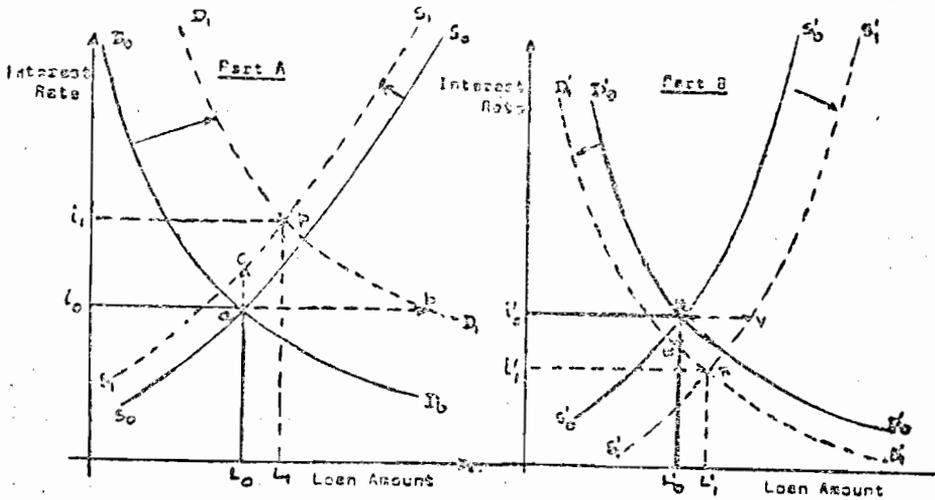
In four out of nine cases, the necessary condition itself is not satisfied. These are cases 1, 3, 7, and 9 in which more loan amount at lower or same or even higher interest rate is not possible. Cases 2, 4 and 5 satisfy the "necessary" condition as well as the "sufficient" condition (a) stated earlier. The remaining two cases 6 and 8 satisfy the "necessary" condition as well as the "sufficient" condition (b) mentioned earlier. Part A of Diagram 4 represents case 6, while part B of this diagram portrays case 8.

Table 1
**HYPOTHESIZED "NET" IMPACT OF "GROUP" LENDING
 AFTER THE INTRODUCTION OF POTENTIAL DISADVANTAGES**

Net Demand Shifts (ΔDS)	Net Supply Shifts (ΔSS)		
	$\Delta SS = 0$	$\Delta SS > 0$	$\Delta SS < 0$
$\Delta DS = 0$	No. Case 1	Yes Case 2	No. Case 3
$\Delta DS > 0$	Yes Case 4	Yes Case 5	Yes* Case 6
$\Delta DS < 0$	No. Case 7	Yes* Case 8	No. Case 9

- Notes:-**
- 1) No. stands for "Group" lending is no longer an innovation.
 - 2) Yes stands for "Group" lending continues to be an innovation.
 - 3) Yes* stands for "Group" lending continues to be an innovation, provided $|\Delta DS| > |\Delta SS|$ or $|\Delta SS| > |\Delta DS|$

Diagram 4 Equilibrium Interest Rate and Loan Amount under "Net" Shifts in Loan Demand and Supply Schedules.



Case 6

Case 8

Point 'p' represents $(\Delta DS) (\Delta S) (\Delta SS) < 0$
 and $|\Delta DS| > |\Delta SS|$
 Distance ab $>$ distance ac

Point 'n' represents $(\Delta DS) (\Delta SS) < 0$
 and $|\Delta SS| > |\Delta DS|$
 Distance uv $>$ distance uw

To conclude, both the necessary and sufficient conditions must be simultaneously satisfied for group lending to be an innovation. Moreover, when $(\Delta DS) (\Delta SS)$ is expected to be negative due to $\Delta SS < 0$, it is critical for the banks to mobilize as large a demand advantage as possible so that "net" demand shifts (ΔDS) more than outweigh the ΔSS resulting from shift to the left in the loan supply schedule.⁴ Converse would be the case if $(\Delta DS) (\Delta SS) < 0$ due to negative ΔDS .

4. This kind of situation appears to be applicable to those banks which aim at only one of the three potential supply advantages, namely, lower default risk. Since the probability of realizing "net" advantage from this factor is tenuous, it is critical to enlarge the advantages on the demand side. For this, in addition to saving the mortgage fees of the borrowers, the banks can undertake such measures as reducing the number of certificates which borrowers are required to submit along with their loan applications, minimizing the time required in the processing of loan applications, and requiring only one member to visit the bank for certain selected work.

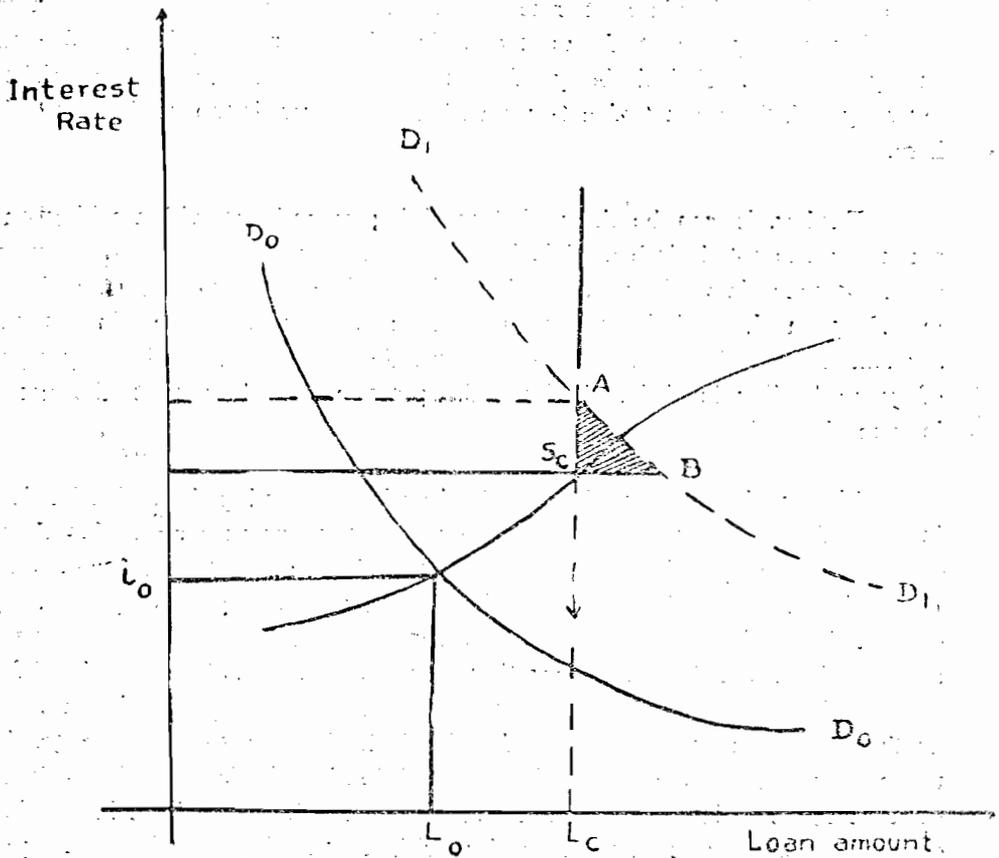
These conclusions would hold as long as interest rates are even marginally varied as is the case with the commercial bank credit in India. However, they would not be applicable when interest rates are rigid as is the case with cooperative credit. Providing varying amount of loan at one single interest rate implies a perfectly elastic supply of credit. Undesirability of such supply schedule when lending risks vary inversely with the amount of net-worth of the borrowers is too obvious to elaborate here.

Further, it can be shown that providing group loans with a ceiling on loan amount is also not desirable. This is because such practice has a potential to create an excess loan demand when the demand schedule shifts to D_1D_1 , as is shown in Diagram 5, and intersects the loan supply schedule in its vertical segment associated with the ceiling amount. In this case also the very purpose of group lending is defeated since this practice would restrict the net shifts in loan demand schedule.

Finally, the success of group lending in overcoming the RFM barriers lies in mobilizing as many demand and supply advantages as possible so that the earlier described necessary and sufficient conditions can be fulfilled. The financial institutions can achieve this through a multi-functional role by organizing not only the supply of credit and technical services but also the supply of other services including making available inputs, and output marketing services. Such role is very critical for the success of a credit programme for low income households. In performing such role yet another condition which is required to be fulfilled relates to the "homogeneity" of the members of the group identified. This condition is essential to realize the potential net advantages associated with both the loan supply and demand. Financial institutions cannot possibly meet this tall order without pursuing flexible and positive interest rate policies.

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5. Precisely for this reason Adams and Ladman have questioned the promise of the group lending innovation experiences in Philippines, Ghana, Bolivia, etc. See Adams and Ladman (1879).
 6. In a pilot empirical study carried out by this author, it was found that lack of "homogeneity" in respect of location, and technology of group borrowers largely contributed to raising their unit costs of borrowing and also the default rate. For a sub-sample of group borrowers in whose case this condition is satisfied, both the default rate (17 as against 31 per cent) and unit non-interest costs (Rs. 6 as against Rs. 6 for every Rs. 100 loan) are lower than those for the sub-sample of mortgage borrowers (Desai 1979).

Diagram 5. Hypothesized Impact of Loan Ceiling Policy under Group Lending



Concluding Observations

The existing formal agencies have inadequately met the credit of the poor households. The main RFM barriers, in both the formal markets, for these households are manifested through the higher unit non-interest costs including unit risk premium. We further hypothesize that such costs shift both the loan demand and supply schedules to the left (see Diagram 1). This then results into the use of inputs which is much below the socially optimum level (see Diagram 2), besides influencing the equity objective adversely.

Group lending has a potential to overcome this problem, provided the following conditions are satisfied;

(1) Necessary condition: $\Delta DS > 0$ or $\Delta SS > 0$

(2) Sufficient condition: (a) $(\Delta DS) (\Delta SS) \geq 0$

(b) If $(\Delta DS) (\Delta SS) < 0,$

then $|\Delta DS| > |\Delta SS|$ or $|\Delta SS| > |\Delta DS|$

To fulfil these conditions the financial institutions would have to mobilize as many demand and supply advantages as possible. They can do so through a multi-functional role by organizing not only the supply of credit and technical services but also the supply of other inputs and services including marketing outputs to the group borrowers. Such role is very critical in reducing the unit non-interest costs including unit risk-premium for both the lenders and the poor borrowers. In performing this role the financial institutions must ensure selection of those group borrowers who are homogeneous in respect of their location, technology, farm size and so on. Finally, the potential success of group lending to overcome the earlier described problem would also require flexible and positive interest rate policies.

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Small Farmers Development Programme In Nepal

-Dr. Prakash C. Lohani

Section I

Introduction

Nepal is a small landlocked country sandwiched between the two Asian giants, India and China. Nepal is also very much an agricultural country with one of the lowest per-capita income in the world. Even among developing countries Nepal's dependence on agriculture as a source of output and employment remains at a relatively high level. Agriculture's contribution to GDP is around 65 percent.¹ It is a source of employment to 94 percent of the labour force and generates 80 percent of the total visible export earnings of the nation.² These statistics alone are enough to highlight the fact that economic development in Nepal basically means an increase in the productivity of labour employed in agriculture. It is necessary to support a rising population, to increase export earnings and to prepare the base for industrial development both in terms of resource accumulation and the provision of necessary raw materials and technology.

The latest estimate regarding the population of Nepal is 13.7 million³ The size of the country is 54,360 sq. miles. This gives a man/land ratio of 1.02 ha. which compares favourably with other countries in the region. But Nepal's man/cultivable land ratio is only 19 acres which is one of the lowest in the world.

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1. *Agricultural Statistics of Nepal*, (1977), His Majesty's Government of Nepal (HMG), 1977, pp. 3.
 2. *Ibid*, pp.3.
 3. *Population Projections for Nepal (1971/86)* Central Bureau of Statistics HMG, 1974.

The reasons for the two man/cultivable land ratio has to do with the topography of the country which largely consists of hilly (68 percent) and mountainous (17 percent) areas with numerous micro climatic zones, scattered fertile valleys and plateaus. The southern portion of the country that is 15 percent of the total land area of the nation, however, consists of an almost unbroken strip of flat land extending all the way from the east to the west. It constitutes a part of the indogangetic plain and is rich in forest and productive agricultural land. It provides 60 percent of the total cultivable area and is a home for 35 percent of the total population.

Politically, the Nepali people overthrew the feudal family rule in 1951. During the last 29 year, Nepal has launched Four Five Year Plans and one three year plan for modernizing her economy and to initiate a pattern of sustained increase in income and output. But the results so far have remained disappointing. The number of people below the poverty line is 40 percent. Percapita income has remained virtually stagnant. Population has been growing at the rate of 2.16 percent (1971/76) but average annual increase in cereal grain production has not been able to rise above 1.91 percent (1971/76).⁴ This growing imbalance is reflected in the decreasing availability of per capita cereal grain from 301 kg in 1971 to 266 kg in 1978.⁵

For the vast majority of small and marginal farmers especially in the hills and the mountain region survival even at a bare subsistence level is a grim nightmare getting worse over time. In their desperate search for food and employment people have been forced to destroy forests and pasture land and migrate from the hills to the plain. In this process the relationship between man and nature is turning into an antagonistic struggle with man loosing everyday. It is in this context that the Small Farmer Development Programme (SFDP) comes as a promising strategy for rural mobilization and development. It is based on the concept of developing self-reliance with the participation of the poor in effecting a transformation in their lives, the social structure which they face and the landscape on which they live and work.

In Section II we present a brief history of rural development strategy and the emerging relationship between man and nature in the nation. In Section III & IV, the SFDP experiment in Tupche and in different parts of the country is analyzed to study the involving perception of the poor towards group concept. Based on analysis

4. Agricultural Statistics of Nepal, 1977, p. 3.

5. Mahesh Banskota, "Basic Needs and Agriculture in Nepal: The role of Agricultural inputs", CEDA, Nov. 1979.

in Section V we discuss future difficulties as well as the opportunities and potentials of this concept for the development of the nation.

Section II

A HISTORY OF NEGLECT & EXPLOITATION

Past Exploitation

Before 1951 Nepal was under a family autocracy that considered the whole country as a private estate. Technically all the cultivable land in Nepal belonged to the state but various forms of teneural arrangements to sustain a feudal and autocratic system had a firm hold in the country.

The most important forms of tenure that have evolved in Nepal are the *Raikar*, *Birta* and the *Jagir* system. Land owned by the state given to the tenants for cultivation on a taxable basis is known as the Raikar system. But if the state alienated its ownership in favour of some individuals or institutions for political, personal, philanthropic or religious or any other consideration it is then known as Birta. Furthermore when land grant was used as emoluments to civil and military employees of the government it was known as Jagir.

In the historical context, both Jagir and Birta system were used as a powerful incentive mechanism by King Prithvi Narayan Shah, to establish the Nepali state. Soldiers and commanders were then assigned Jagir land in newly conquered territories. Similarly those who supported the king in his military conquest would be rewarded with Birta land. Those who opposed had their land confiscated.

In the 1840's political struggle in Nepal was fierce among competing elite factions. The climax of this conflict was the Kot massacre where the Rana faction virtually wiped out all its opponents and was able to monopolize power all in the name of the king. However, once they achieved power the Ranas virtually kept the king as a prisoner and ruled in his name. Any body outside the Rana family was excluded from the post of the Prime Minister.

The Ranas pursued with full eagerness and vigor, the objective of enriching themselves and rewarding their followers. In this scheme the southern flat lands of the country or the Terai was liberally distributed as Birta land to Rana families

and their supporters. The ranks of the land owning elite that was allowed to receive half or more of the peasant's produce without performing any economic service swelled considerably. Thus by 1951—the year when the Ranas were overthrown over 50 percent of cultivable land was in the form of Birta tenure. Out of this the Ranas owned 75 percent.

In the villages and the countryside the Rana bureaucracy which was nothing more than a crude form of household officialdom was not strong enough to make itself felt for the purpose of doing an effective job of collecting taxes. It needed an intermediary structure to help collect taxes. Similarly, the land-owning elite needed an effective mechanism sanctioned by the state to collect its share of the produce from the peasants for financing its luxury consumption in Kathmandu. Thus a new class of local functionaries who would collect taxes from the peasants and hand it over to the government or the land-owners were established in the villages. In return for this function it was allowed to earn a commission or profit. In the hilly region of the country the new functionaries came to be known as *Mukhiya*, *Dware Zimuwals* and *Dhokres*, and *Chaudhari*, *Jimidars* *Talukdars* in the Terai. They constituted the village elites and had considerable freedom in exploiting the peasants long as they fulfilled the tax collection function and showed their loyalty to the family rule in Kathmandu. The magnitude of exploitation on the other hand is indicated by the fact that in mid 19th century thousands of farmers from the hills abandoned their farms and immigrated to various places in India and Burma. They were simply unable to bear the burden of supporting a parasite landlord class, a revenue oriented family rule and a whole host of local functionaries all working in an implicit grand coalition to squeeze the maximum from the peasantry.

After Democracy:

When the Rana system was overthrown in 1951 the new rulers influenced as they were by the march of events and ideas in both India and China promised democracy, equality before law, a modern economy geared to the benefit of the many and a redistribution of income generating assets in the nation. These were revolutionary promises made in the face of a social and economic structure that the political change had barely touched. But in those euphonic days of new ideas about change and progress, the unchanged social structure was not a matter to be taken seriously. Even the fact that the first post revolutionary prime minister was a Rana patriarch who was the prime minister under the Rana regime and therefore symbolized the system against which the political struggle was directed in the first place did not cause

any concern in the new atmosphere of victory and jubilation.

Once the initial enthusiasm started fading in the background politicians in Nepal found that the key to social and economic change was to a great deal related with the structure of asset ownership in the nation. But a farmer after the revolution was an insecure individual, defenceless against landlords, exploited to the maximum and unable to comprehend the forces that have enslaved him in a state of dependency and despair. On the other hand the land-owning class and the village elites, a burdensome legacy of the past, remained intact. They were not now the formal rulers of the nation but as a class they retained their economic power and continued to supply the new officials needed for the bureaucracy.

Perhaps the greatest weakness of the Nepali political revolution of 1951 is reflected in the fact that the post revolutionary regime committed to the changing of property relations in the society did not even dare to declare in the First Five Year Plan (1955-60) the principle of making the cultivator, the owner of the land he ploughed as a long term goal to be realized in the distant future. The strength of the feudal interests meant that questions of property relations were often discussed but never taken seriously. Thus while discussing land reform in the First Plan, planners did not even care to state that landlordism as represented by the Birta system would be abolished. They took a softer line and went on to state that measures necessary for reforming the Birta system will be properly analyzed to be eventually followed by necessary legislation.⁶

In 1959 the first elected government in Nepal was formed. It introduced the first major piece of legislation designed to prevent some of the worst exploitative features of landlordism as represented by the Birta system. Under the Birta Abolition Act (1959) the Birta tenure was converted into Raikar tenure. This was a commendable step. It abolished private ownership of land in favour of the state. But the act had best a

6 For a discussion of land reform measures from 1950-1960 see:

- (a) *The First Five Year plan of Nepal Government of Nepal* 1956;
- (b) Ram Bahadur K. C. *Land Reform and Land Administration with Remedies* Department of Land Reform, His Majesty's Government of Nepal 1971.
- (c) "Trend in land distribution and landlessness in Nepal and their Implications for Agrarian Reform" (Cyclo) CEDA 1979.
- (d) Kali Prasad Rijal (editor) *Nepal Ma Bhumi Sudhar* HMG 1973.
- (e) Badri P. Shrestha *An Introduction to Nepalese Economy* Ratna Pustak Bhandar 1962.

marginal impact in ameliorating the conditions of the peasants.⁷

Under the Panchayat System:

The partyless panchayat system introduced a programme of land reform in 1964. Under the land Act (1964) the government aimed at: (a) providing legal protection and security against arbitrary eviction to the tenants, (b) imposing ceiling on landholdings both on the tenants and the landlords, (c) fixing of land rent that a landlord could extract from the tenant, (d) and establishing a method of mobilizing rural savings to be used as working capital fund for the tenants now protected under the law.⁸

The desire to strengthen the political legitimacy to govern by pushing the theme of modernization has been a phenomena that has been of great importance in the Third World countries. In Nepal it was largely responsible for the land reform programme of 1964. However, the essentially feudal character of the ruling elites and the lack of consciousness about the objective of social reality among the peasantry virtually assured that the basic spirit of the programme would not work in favour of the poor and the downtrodden. Thus, legal loopholes were liberally inserted in the land reform legislation. The landed class took ample advantage of these implicit escape routes designed to dilute the changed potential of the programme. Ceiling laws were evaded,⁹

7. The Act classified *Birta* land into two classes. Class I *Birta* land included large estates where the *Birta* owner was primarily a collector of fixed rent. Such large estates normally employed intermediaries as tenants who in turn allotted it to peasants for cultivation. Abolition of class I *Birta* and its registration in the name of tenants therefore meant that in many cases the intermediary as the tenant became the owner. For the cultivator the situation remained unchanged.

Birta land that was classified as class II mostly consisted of small parcels of land with the holder enjoying occupancy rights.

8. *Land Act (1964)* H. M. G. 1964. Regarding the rent that the tenant has to pay to the landlord it is interesting to note that the government legalized the traditional rent level as long as it was not above 50 percent of output. This amounted to a virtual acceptance of the status quo.
9. A. N. Seth, *Land Reform in Nepal National Seminar on Land Reform HMG 1970*. According to Seth "The ceiling provisions were well conceived but they were evaded through *benami* transfers on a large scale due to delayed implementation" (p. 19). As regards distribution of whatever surplus land that had been acquired the National Planning Commission states, "There has not been any noteworthy

tenants were evicted and land rents in most parts of the country were fixed at 50 percent of the main produce.¹⁰ Similarly peasants organization even though provided in the constitution of the nation were kept in a perpetual state of stagnation and torpid. An attempt to link credit reform with land reform in the form of a compulsory savings scheme on the other hand found badly after two years of its launching.¹¹

Basically under the scheme both peasants and landlords were to contribute a portion of their output to create a working capital fund for financing production. Interestingly enough, collection of funds under this scheme did not prove difficult; what became unmanageable was its proper use. The accumulated funds were not used for the poor. In many cases they were swindled by the political functionaries of the new system. When it did find an outlet in productive investments the large farmer were able to take the maximum advantage.¹² The small farmer was ignored, as usual and the reform programme did very little to change the dependency relationship between the privileged and the poor characteristic of the past.

success in the distribution of surplus land acquired under the land reform programme." Impact of the Fourth *Plan on the Masses*.

10. There is evidence that points out to the possibility that the land reform programme may have led to large scale eviction of tenants and the introduction of underground share cropping arrangements. In 1962 before launching of the land reform programme, 27.8 percent of land holdings were under cultivation by tenants. In 1971 it had decreased to around 18 percent. Such a dramatic decrease after the land reform in the face of a rising population and labour force employed in agriculture strongly suggests that eviction of tenants has become a normal phenomena. See: *Agricultural Statistics of Nepal H. M. G. 1972*.
11. B. P. Dhital, *Compulsory Savings Scheme in Nepal* Ministry of Food & Agriculture, H. M. G. June 1971. Concluding his discussion Dhital writes: "The apparently successful implementation of the programme over the first two years only showed that success does not necessarily breed success. It now seems that the initial successes may be forfeited in a return to a more comfortable status quo." (p. 21).
12. According to a study by the Central Bank of Nepal (Rastra Bank) Credit by Government sponsored institutions provide only 20.87 percent of the total credit requirements of the rural sector. Out of this total supply from government sponsored institutions the share of the small farmers is only 8.18 percent. See: *Agricultural Credit Survey of Nepal*. Nepal Rastra Bank. 1972.

In recent years the original enthusiasm for land reform has all but vanished. Even in Budhabare where the first successful pilot programme in land reform was launched in 1964 it was found in 1972 that 42 percent of the farmers are either unsecured tenants or landless labourers of just unregistered settlers. As for land ownership 11.9 percent of the household virtually own 100 percent of the land in the Panchayat area.¹³

The lackluster performance in land reform has been matched with an equally disappointing accomplishment in creating an institutional delivery system to reach the small farmers with modern agricultural inputs and failure. The cooperative movement started in the country in the early 1950's. By 1970 there were as many as 1900 co-operatives but even the Planning Commission went on to point out that 85 percent did not function at all.¹⁴ The planners saw the heavy hand of bureaucracy as being primarily responsible for this dismal performance. The Fourth Five Year Plan went on to state that "these co-operatives were not developed by those people who accept the principles and ideals of the co-operative movement. They were formed primarily by the department of co-operatives with government grants."¹⁵ And yet when a new programme of co-operative revitalization programme was introduced the approach was again heavily bureaucratic with no conceptual thinking on people's participation. The result was that even where the co-operatives were 'revitalized' and successful in their credit expansion programme, the major beneficiaries were again the large farmers who had the collateral, information and other linkage resources to augment their wealth position.¹⁶ Despite such trends, however, agricultural development plans in recent years regularly make it a point of stressing the need for augmenting credit supply to small farmers. The Agricultural Development Plan (1973-1983) for example sets the target of credit distribution to small and middle farmers at two third of the total amount available.¹⁷ But the institutional form visualized for this task is again the co-operatives which have so far failed to achieve such objectives.

13. Mohan Man Saiju, et. al. *Revisit to Budhabare*, CEDA, 1972.

14. The Fourth Plan, National Planning Commission, 1970, p. 82.

15. *Ibid.*

16. According to M. Saiju, a member of the Planning Commission 50 percent of credit extended by the Agricultural Development Bank of Nepal, the only one of its kind in the nation, goes to large farmers. See: M. Saiju, "Institutional Growth for Rural Development Programme: Sajha Programme" (in Nepali) cited in Diwakar Chand, *Critical Appraisal of the Rural Economy of Nepal*, 1976.

17. *Agricultural Development Plan*, (1973).

Reviewing the poor performance of the cooperatives so far the Agricultural Development Plan considered to be one of the vital documents dealing with Nepal's agricultural development has very little to say except to stress the need to strengthen them in the future. Why have the co-operatives failed to reach the poor? Why is it that only the well off farmers are able to take maximum advantage from such institutions? These are questions that are largely left unexplored.

The experience of the co-operatives has been repeated in the field of agricultural extension as well. The basic approach has been to concentrate on the so called 'innovators' with the hope that the rest of the peasantry will follow them. But who are these "innovators"? They are again most likely to be owners of large holdings. This means that the delivery system has again ignored the small and the marginal farmers. Since it was not designed with their special constraints in view it did not reach them in an effective manner.¹⁸

Indifference of the Political Elites

The inability to reach the small farmers has not been much of a concern to the elites of the nation. Political leaders as well as planners have been primarily concerned with meeting the targets regarding the supply of modern physical inputs and not with the actual opportunities and constraints characteristics of different classes of farmers in the nation. The wide variation in the social and material conditions of different classes of farmers and the interaction of each class with the political system has been quite ignored.¹⁹ In fact the word "farmer" has been used until the early 1970's in a very vague and general sense. It included everyone from landless labourers, tenant farmers and small owner cultivator to large landowners or capitalist type farmers

18. Ludwig Stiller & R. Yadav, *Planning for People* Research Centre for Nepal and Asian Studies, 1979.

19. It is a remarkable fact that up to 1970 the problem of small farmers was seldom mentioned in the planning documents. In the Fourth Five Year Plan of Nepal for example the whole emphasis is on the supply of "modern physical inputs" to farmers with no consideration about the constraints facing the majority of small farmers in the nation. See: *The Fourth Plan* Chapter 5. By 1976, however, the NPC had come to accept the logic that while evaluating the impact of the Plan upon the people "it is necessary to find out as to what extent the small farmers in the nation benefitted from different inputs and facilities made available by the government, especially agricultural inputs, credit, irrigation and other technical services". See: *The Impact of the 4th Plan Upon the People* (in Nepal).

working with improved technology including modern machines. Obviously it would amount to nothing more than a callous indifference towards the objective-economic reality to assume that the access to modern technology and the work motivation of a small tenant farmer holding a temporary tenancy certificate would be the same as that of the owner of a large farm. The latter will have access to better information, improved technology and also the funds or finance through government sponsored institutions. Naturally, he will be more oriented towards the market. The small farmer on the other hand is likely to have access to none of these advantages. On top of this if there is any increase in productivity he will have to share it with the landlord, under the 50 percent crop sharing formula as laid down in the law. Naturally, under these conditions it would simply make no sense to specify a given set of policies and assume that it will serve the requirements of the Nepali farmer'. The fact remains that like in most developing countries with a long colonial or feudal heritage farmers as a group in Nepal are simply not homogeneous. In terms of their access to capital, technology and various other forms of institutional support they remain highly unequal, diverse and fragmented.

The assumption of a 'homogeneous farmer' employed in planning documents has seldom been questioned by the politicians. The top elites in the political field have in fact a vested interest in the continuation of a set of policies that ignores the small farmers. This is because they themselves represent the landed elites. Thus, expansion of state supported institutions to support agriculture is welcomed and encouraged; but when it comes to taking advantage from these agencies the large farmers and landlords become the prototype of farmers employed in economic models. Naturally, under such conditions the optimum production level that applies to the minority has no relevance for the majority who are share croppers, tenants and small farmers yet unorganised and therefore, relatively ineffective in making themselves felt in the nation.²⁰

Antagonistic Struggle between Man and Nature

Our brief review of some of the important aspects of Nepal's development

20. The apparent contradiction between the interest of the ruling elites and the majority of Nepali farmers in the nation is noted by the Planning Commission albeit in an indirect manner. According to one document, "It is the policy to adopt labour intensive techniques in production but simultaneously mechanization in farming is also being stressed. Similarly progress in land reform in making the actual cultivator the owner of the land he cultivates is not satisfactory". See: *Mid Term Evaluation of the Fifth Plan*. National Planning Commission, HMG, 1978.

experience present a disappointing scenario. In quantitative terms most of the available macro economic indicators present a vision of lethargy and stagnation. Undoubtedly there has been some impressive progress in the building of physical infrastructure primarily with foreign aid. There has been significant progress in education. Health facilities of ten with foreign aid have expanded and life expectancy at birth has increased from thirty two in the early 1950's to forty five in 1976. Similarly the task of state building in the form of expansion of the bureaucracy has been impressive. State entrepreneurship even though highly inefficient has continued. The number of public enterprises have increased from less than half a dozen in 1959 to fifty eight in 1974-75. Despite all these statistics however, for the vast majority of people living in the village and the countryside survival even at a bare subsistence level is becoming increasingly difficult. The 'push' effects of developmental programmes have been more the cancelled by the 'pull' effects generated in the process. As a dialectical process every forward momentum in the developmental process has also produced new forces to stop this progress. In its most exposed form this contradiction is reflected in Nepal in an increasingly antagonistic relationship between man and nature. Thus, deforestation is progressing at an alarming pace raising the spectre of severe ecological imbalances having its impact on everything from energy supply to flood level and the productivity of land. These are no longer the nightmarish vision that may come true in the distant future. They are already making their presence felt in the economy. Despite increasing use of fertilizer and other inputs yield per hectare has at best remained constant.²¹ Fuel and fodder shortage is already a serious problem in many parts of the country and soil erosion is finally being recognized as a grave threat to survival.²² There are indications that in the far western region of the country desertification may be gaining momentum unless reckless aggression against nature is controlled quickly.²³

The causes for this increasingly antagonistic relationship with nature at the

21. *Economic Survey* Ministry of Finance, HMG, 1979.

22. Energy Research & Development Group, *Nepal: The Energy Sector* Institute of Science Tribhuvan University, 1976. According to this report "with the increase in population mostly in rural areas the present over-reliance on forest as a primary source of non-commercial energy will lead to further depletion of already dwindled forest far beyond the regenerating capacity. The present study has estimated that at the current rate of exploitation the forest resources may be exhausted before the end of the century with irreparable damage to the ecological system of the country.

23. Eric Elkholtz; *Loosing Around*.

more superficial level may be attributed to the increase in population. The annual rate of increase in population between 1960 and 1970 was 2.07 percent. Demographic experts predict a further increase in the growth rate. Even basic health measures have had significant impact in decreasing the death rate. The birth rate on the other hand has not continued in the foreseeable future. The country does have a family planning programme but its impact has yet to be observed.

Attributing the increase in population as being solely responsible for the evolving structure of an antagonistic relationship between man and nature however is too simple explanation for a very complex phenomena. Ultimately the inability to develop a non-antagonistic relationship with nature has at its root the evolving mode of production and the configuration of societal forces in the allocation of economic values in the social system.

While large feudal estates are breaking up in the country the reliance of the small farmers and tenants on the village elites for economic purpose continues. The structuring of the political power in a manner that favours the traditional village elites has helped them to maintain their psychological as well as material domination over the masses. The small farmer in Nepal finds himself virtually ignored by the state with only the traditional money lender and the local political functionaries under the partyless system drawn from the old class of village elites as the major source of economic help and protection. The societal environment thus facing the small farmer reinforces a dependency relationship even though its outward form may not be the same as that of the prerevolutionary days. The essence of this relationship is material exploitation of the rural populace. The state becomes a part of this scheme since its delivery system never effectively reaches the poor so as to enable them to stand on their own.

An exploitative relationship that we have outlined above thrives on an disintegrative individualism that is not capable of seeing the similarity of interests between the same classes of farmers. For the village exploiters a staunchly individualistic farmer who is willing to outbid other farmers like him to receive some economic favour even at an high economic cost is an ideal peasant. But, in the race of a rising population the continuation of such an exploitative dependency relationship impoverishes the rural peasantry, limits their ability to accumulate capital and forces them to launch an aggression against nature in the form of deforestation, cultivation of steep mountain slopes thus contributing to soil erosion and the claiming of pasture land for food production. Rising population thus interacts with the social balance of power and

the evolving mode of production to unfold an increasingly antagonistic struggle between man and nature in the nation.

Section III

THE SMALL FARMER DEVELOPMENT PROGRAMME

By the beginning of the 5th Five Year Plan (1975-80) planners in Nepal were beginning to realize that the agricultural development strategy pursued so far had paid no heed to the vast majority of small and marginal farmers in the country. The increasingly antagonist relationship between man and nature in the mean time was creating a whole lot of tension in the socio-political system. There was therefore, unwillingness to search for a new strategy that would address itself to the needs and requirements of the small farmers without necessarily leading to any major change in the social balance of power. This last proves, as we will show later has been and is going to be of crucial factor in the implementation of a development strategy that focuses its attention on the downtrodden and the poor.

The first major impetus to thinking on small farmers was provided by a workshop on "Development Support for Small Farmers" jointly sponsored by FAO/ACARRD and His Majesty's Government of Nepal. The purpose of the workshop was "to focus attention upon the problems of small farmer's development and their possible solution from field operational angle and in the context of a few specific and typical rural areas in the country—such as Terai and Hill regions".²⁴ The workshop came with a long list of recommendations in the area of tenural relation, agricultural resettlement, credit, marketing and co-operatives, agricultural extension, production technology and farm organization. As a field action project, it proposed two projects one each in Nuwakot and Dhanusha district to be implemented with institutional support and arrangements necessary for raising the income and employment opportunities to the small farmers. The overall objective of the programme was to "improve the income and employment of participating farmers and labourers through institutional and other specific development support rather than it concerned with the overall areas development".²⁵

24. *Proceedings of Workshop on Development Support for Small Farmers*. Ministry of Food, Agriculture and Irrigation HMG, Jan 1974, pp. 15.

25. *Ibid*, pp. 52 Also see: J. P. Joshi's SFDP Nepal: "Field Action Project" (Cyclo) ADB/N, 1974.

The workshop was held as a success and its recommendations were almost viewed as a new revolution! The then secretary of agriculture in his concluding remarks, reflecting the mood and enthusiasm of the participants observed. It's seriously felt that approximately 88 percent of the total farming community in this country who are real small farmers have been ignored and neglected. Can we afford not to take this bulk of the agricultural population into consideration? It seems to me that there is definitely a departure from convention this time. We held so many seminars and conferences in past..... But we never cared to review the position of small farmers who are the major contributors towards the growth of GDP. The exercise in this workshop has definitely given us an opportunity to suggest ways and means to correct the mistakes done in the past. The report of this workshop will be seriously considered by our ministry.²⁶

At the end of seminar and workshop responsible speakers who have to undertake the task of delivering concluding remarks tend to be irresponsibly optimistic than warranted by common sense and experience. There was no reason why the secretary of agriculture should have been an exception to this general trend. Most of the recommendations of the seminar that suggest institutional changes or alteration in the distribution of assets and income have so far remained safely in libraries and government offices as research materials for students in agricultural economics of Nepal. But two pilot projects for small farmers to be launched with the financial assistance of the FAO and the overall management support of the ADB/N were undertaken in two Panchayats (i. e. countries) each of Nuwakot and Dhanusha district in the Hill and the Terai region of the country. The projects were launched on September 1975 in Dhanusha and March 1976 in Nuwakot, this marks the beginning of the Small Farmer Development Programme (SFDP) in Nepal.

The SFDP starts with the basic premise that the institutional infrastructure established for agricultural development so far has had a service domain limited to only a small set of the total farm population. In terms of institutional efficiency and effectiveness the limited nature of the service domain has been a negative development in establishing the material as well as a psychological basis for the economic upliftment of the small farmers in the nation. It has greatly restricted the strengthening of various linkages between the new institutions and the masses and has indirectly reinforced traditional forms of dependency between the privileged and the poor.

26. Basudev Pyakurel "Concluding Remarks" in *Development Support for Small Farmers*. Ibid, pp.154.

The primary reason for the failure of the past strategy, as indicated previously, has been the nation of a homogeneous farmer. It has formed the basis of all the institutional design and evolution so far. The SFDP represents a departure from this theme. The very idea that small farmers have special needs and requirements not catered by the existing institutions may seem nothing more than reasonable commonsense which most human being could be assumed to be amply endowed with. And yet, the application of this concept at the operational level, represents a radical shift from existing thinking on farmers and farming. Implicitly, the concept of class as the basis of agricultural development and related institution building now becomes the primary conceptual tool for action. Thus, the idea that small and marginal farmer have seminar needs, requirements and aspirations leads to the logical conclusion that programs must be designed to consolidate their class solidarity and consciousness so that they can view the existing social reality not as a constant to be endured in a fatalistic manner but as a variable capable of being transformed over time. Naturally, then, the service domain of the new institutions must now include the largest subset of the system which means small farmers who constitute the vast majority in the nation. Institutional efficiency as well as effectiveness requires that the new relationship that is to be established with the teeming majority must be symmetric and reflexive as well. Thus, when an institution for small farmer comes into being, it means that both the elements- i. e. the farmers and the institution- must be able to engage in a process of interaction that denies fixed ordering and consolidates two way communication and control, leading to a heightened awareness of class strength as well as new capabilities for taking advantage of opportunities open in collective action in resource accumulation, utilization and distribution. The process of interaction should change both the psychology of the oppressed as well as the service capability of the institutions in a dynamic context so that new opportunities of improving the material standard of living as well as challenges in the application of technology inherent in the process of development are faced with a sense of self-reliance and confidence.

The acceptance of class consciousness as an integral component of the development process indeed represents something of a revolutionary shift in the agricultural development strategy of Nepal. It's in this sense that the two pilot projects started in Nuwakot and Dhanusha become significant even though their coverage initially included no more than four counties out of a total of 3300 counties in the nation.

In operational terms the Small Farmer Development Program involved the following major steps:

- (a) At the field level Small Farmer Development program office headed by an official of ADB/N, was established. The head of the field office was known as the group motivator (GO). The GO was given the responsibility of conducting a socio-economic survey of the area. He would determine the number of small farmers and try to comprehend the forces of stagnation and under-development.
- (b) Once (a) is completed the GO would start holding consultations with the small farmers and explain them the nature of the new program. He would stress the fact that ADB/N has opened an office to help small farmers in improving their economic condition if they were willing to help themselves. The farmers, could help themselves, if they formed groups of ten or fifteen people consisting of only small farmers and agreed to conduct their transaction with the bank as a group rather than individuals.
- (c) Once the small farmer groups are formed the general guidelines for their functioning are as follows:
- i) Each group must elect a leader.
 - ii) The group must hold meetings at least once a month and decide on an investment plan based on individual member's credit request and requirements. Any group plan of action must be based on group consultations and discussion.
 - iii) Loan applications will be submitted to the field office of the ADB/N indicating the group's investment Plan, total requirement of Funds and the allocation among individual members.
 - iv) when loan is approved by the GO the local cooperative which is financed by ADB/N would provide the money.

Generally, the most pressing need of the poor is credit. The promise of credit is therefore the greatest incentive for group formation. Once farmers organize themselves into groups for the purpose of acquiring credit, they start gradually realizing that there are many more things that they can do collectively which they had not thought before.

When the group receives funds from the local cooperative it becomes responsible for its proper utilization and repayment as well. In case an individual member did not utilize the loan for the stipulated purpose or failed to repay it in time the bank will hold the group responsible and refuse it further loan facilities in

the future." It is this concept of group liability that makes members concerned in each others activity, especially regarding the use of credit. This acts as a strong deterrent for an individual member of the group to misutilize the new facilities since this would directly affect the well being of other members in the group. Individual repayment failure, if it occurred becomes the concern of the group as a whole. This accounts for a generally better repayment record of the small farmers where SFDP has been launched so far.

General Problem Areas:

The formation of groups even just for the purpose of getting credit creates new interdependence among group member. It constitutes the first step in raising the level of self-confidence among the members, in terms of their ability and willingness to look at the future with hope and some confidence. But success even at this stage requires a reorientation in the thinking of governmental line agencies in the field. Once the bank starts lending to the groups for new income generating activities necessary technical support from line agencies must be forthcoming. This can represent a big problem because agricultural development programs have generally been geared towards meeting specific input or output targets. Everything else beyond that is seldom seriously considered. If the objective of a program is say, to plant 100 trees, government officers try to meet this target. Next year seventy percent of the sapling may have died but this does not become an issue for concern. The targets of planting 100 trees has been fulfilled and that is what counts in official records. Naturally, such a 'target approach' yields poor return on investments.

The success of the SFDP requires a complete change in the established work pattern of the governmental agencies in the field. What has to be aimed at is not just fulfilling the targets, but also of providing adequate complementary services so that the rate of return on investments, remains attractive. Take for instance a situation where the bank starts new credit program for livestock development for small farmer groups. If necessary technical assistance to the small farmers is not forthcoming wholeheartedly from the field line agencies the program may fail and may only go on to reinforce the resistance of farmers to new approaches towards progress and change. Whether or not such help will be forthcoming can not be taken for granted. Apart from the wrong emphasis on target approach as indicated above, most line offices are traditionally oriented towards providing services to "innovators" or progressive farmers who invariably tend to be the more privileged and the affluent. Thus a change

27. *Procedure for the Grant of Joint Loans to the Group of Small Farmers*, (Cyclo ADB/N, August 1975,

in focus, that SFDP demands would not be forthcoming easily.

Once the small farm group is successful in handling credit from the bank, to be used for the private investment programme of individual members, it develops enough interaction base and mutual confiding towards a higher level of co-operation. Usually this means undertaking some new productive activity as sideline economic venture under collective ownership under group ownership and management. The role of the Go becomes crucial in helping to achieve this transition. Success, at this stage, again requires more than the availability of funds even though it undoubtedly remains as the most important input. There is now need for technical input, extension facilities and support in marketing the produce once the number of groups engaged in such sideline cash crop type economic activities starts increasing in number and complexity over time. The focus of governmental line agencies and the utilization of their resources, will need a much greater orientation away from their traditional client, i. e. innovators or affluent progressive farmers, towards the small farmers. This requires changes in economic thinking as well as the style of operation beyond the village of the country level. The shift in favour of small farmers must start becoming a basic input at progressively higher levels of government. Invariably such a process cannot go independently of the social and political balance of power in the nation.

Even at the village level success of the SFDP is likely to generate opposition from local political elites who are mostly the large farmers and money lenders. Their resentment, on the other hand can pose as a major hurdle in mobilizing the poor since they, the rich, represent the administration's major link at the village level. For example, take the case of the village level co-operative which has to sanction funds recommended by the GO in the SFDP area. Local village level elites known as Panchas are ex-office members of the board of directors of the co-operative. The success of the SFDP will mean that an increasing share of bank resources will be channelled to the poor. But the people who will have to officially approve this at the village level will invariably be the relatively rich and affluent large farmers. Beyond a point, the diversion of resources towards the poor is bound to be resented. The resolution of this emerging contradiction will require a sharing of power by the village poor and small farmers who have gained enough experience working as a group to perceive and protect their class interests. The point to note here is that, it is not simply a question of having small farmers in the governing board of the local institutions. The real issue at hand is to have small farmers, who are conscious of their

interests gained from working in the groups, involved in the management of local institutions like the co-operative. This is indeed a tall order and amounts to nothing less than a peaceful revolution. It can not be achieved or progress made in this direction unless this strain of thinking represents if not the major, at least one of the main conceptual basic political and economic thinking in the nation. It is with this perspective that one has evaluate the achievements of pilot projects like that in Nuwakot district. It is relevant to note in this context that the lack of co-ordination and integration of official governmental agricultural policies with the requirements of the SFDP concept is already emerging as a major problem at the field level. Similarly, the opposition of local level elites who are active in local politics is also showing signs of emerging as a major hurdle in the future.

Section IV

THE SFDP EXPANSION

The success of the SFDP in the two pilot project area was impressive. After some initial hurdle, group formation proceeded rapidly, farmers were found to be quick to perceive the benefits from the group approach. Apart from economic benefits, it did provide an interaction base to undertake increasingly complex task of economic management. In the process, small farmers were also found to be developing a new sense of solidarity which represented the beginning of a new consciousness to view the social reality in a dynamic frame of reference. All these aspects, were most notable in the two Panchayats of Nuwakot district, which we call as the Tupche experiment (TE).

The experiences of the Tupche experiment has considerably encouraged the young professionals in the ADB/N to view this approach in a much broader context. The bank, decided to launch similar programs in different panchayats of the country. The expansion record is as follows:

Table

Total No. of Groups (Jan. 1980)	Total No. of Panchayats (Jan. 1980)	Total ADB Investment (1978/79) (Rs.)	Total Investment in SFDP (Rs.)
490	41	210.02	1.09

Even though the number of groups have increased rapidly, it is still very much in an 'experimental' stage. There are more than 3000 Panchayats in the country and SFDP has in only 41 Panchayats. Similarly the Bank's investment in SFDP programme was less than one percent of its total financial activities in 1978/79.

In order to evaluate the expansion of SFDP as an institutional vehicle to uplift the poor and to instil in them a sense of self-confidence and self-reliance we now briefly outline the achievements as well as the emerging problems of the Tupche experiment. This will be followed by analysis of field data collected from the different SFDP areas in various parts of the country.

The Tupche Experiment: The Overall View:

The SFDP was launched in Tupche and Karkimanakamana in March 1976. The project area is about 75 km. from Kathmandu and 5 km. northeast of Trisuli Bazar which is the headquarter of Nuwakot district. The two Panchayats are spread over 36 sq. miles (12+24). The topography ranges from 660 meter to 1820 meter above the sea level. Average rainfall is 3000 mm, much of which falls during the monsoon. The other characteristics of the project area is as follows:

Population	:	14194
Human Animal	:	9305
Household	:	1583
Small Farmers No. percent	:	998
Landless household	:	24
Irrigation	:	26 percent
Cropping	:	Paddy, Wheat, Potato, some vegetables.
Social Services	:	
Area under cultivation	:	5470 ropanies.

Before the introduction of SFDP Tupche and Karkimanakamana represented two poverty stricken counties facing problems of resource depletion in the form of deforestation and soil erosion. Two third of the farmers in the Panchayats were small farmers, having a per-capita income of less than Rs. 900 per year. Institutional lending was negligible. For the small farmers, money lenders were the only source of credit at exorbitant rate of interest ranging anywhere from 60 to 100 percent per year. There was no organized marketing. The middleman and the money lender regularly took

advantage of the farmer's compulsion to sell his output at low post harvest prices.

According to the GO stationed in Tupche when the bank first opened the SFDP field office about four years ago, the atmosphere for group action was discouraging. It was not possible even to buy a meal at Rs. 5. Most villagers thought that a new branch of ADB/N was going to open and they were eager for loan. For them the concept of group borrowing, group liability and group management was totally alien. As for the rich who were busy in exploitation, the prospect of having a new source of finance at low interest rate to indirectly strengthen their suppression must have looked attractive. They tried to act as an intermediary between the poor and the bank. They were eager to demoralize the field staff so that they could perpetuate their exploitation.

After some initial effort, the first group was formed in Karkimanakamana. Gradually, the number of groups started increasing. The promise of credit was found to be the single most important incentive for farmers in encouraging towards collective action.

The Tupche experiment is already four years old. Recent studies have found that the group concept as a vehicle for channelling resources to small farmers and organizing them for its proper utilization has had an all round positive impact in improving their income and standard of living. In the mean time, the management and organizing capability of the groups to undertake new economic activities that would have been virtually unthinkable a few years ago is now becoming a common day experience. This increase in organizing skill and the involvement of the farmers in the management of their resources within the framework in the group represents new opportunities for development and change in the future.

The four years experience in Tupche can be divided into three distinct phases. During the *first phase* the group was only a vehicle to channel loan to *individual members*. But the concept of group liability and the need to present the total loan demand of the group only after deliberate discussion among the group members regarding its utilization and repayment had significant effects on the groups since they would have to justify their request with the Go before he makes a recommendation to the local co-operative. Within the group each member had to justify his loan request. If one member was asking for large loan the others had to approve it. They would consider the effect of approving such a request only after thinking of its effect on their

own chances of getting loan. They would also have to consider the ability of the member to repay it in time since failure would be the responsibility of the group. Deliberations of this nature minimize the chances of one particular member exploiting the group for his individual benefits and goes on to establish an interaction base that allows each member to gradually perceive the potential of the group concept in improving his economic standard.

In Tupche the group as a vehicle for channelling loan to individual small farmers was a success. It led to the *second* phase, where groups now thought of new projects under *group ownership*. This was a significant transition and showed that group concept was generating enough confidence among the farmers so that they could now think of collective economic activities. The bank encouraged this trend. It sanctioned loan for collective poultry, fruit orchard, cottage industries and so on. The loan was as usual a group responsibility but it was qualitatively different from the first phase where loan was utilized by an individual member under group sponsorship. Now the loan was borrowed by the group and utilized by the group in a group project. The protection of the newly created asset was the responsibility of not an individual but the whole group. Once the investments started yielding income, the group had to decide how it would distribute the profit amount to the members.

It is interesting to note that group borrowing for group investment has all the necessary ingredients of people's participation at the grass root level. It is the group that decides on an investment project and approaches the bank for loan. Once loan is sanctioned, group members decide on how and when it is to be spent. They take part in implementation of the project and most important of all, its protection and maintenance. Once investment start bearing income, they again have to decide among themselves how the new income is to be shared. In effect, the members are involved in the identification of the investment projects, selection of the investment project, implementation of the project and the sharing of benefits from the project. In all these phases, they have to be involved in constant consultation, negotiation and understanding of each other's point of view so as to be able to make decisions for the group.

It is clear from the discussion above that group borrowing for group investments represents a qualitatively higher level of co-operation relative to the first phase which is group borrowing for private investment. The second phase requires more organizational skill, and decision making ability. Since the group is now much more than an institutional vehicle for private loan; it also becomes a vehicle for collective economic

as well as non-economic not visualized before activity, in effect it opens before the members a new horizon about the economic advantages of collective economic activities in a wide variety of sideline occupations which they had not and could not visualize before. This new understanding would now be based on objective experience. It is this new realization, that represents the beginning of a new consciousness in one's ability to change some of the social, political and economic parameters in the nation.

In Tupche group borrowing for group investment has been picking up. It is common sight to see small fruit orchards owned by groups. They are well maintained and group members have made sure that the terraces or the boundry wall are strong to withstand rain or cattle. Most orchards are on hill slopes that presented a sorry spectacle of man's aggression against nature. Now things are gradually changing. The groups have taken over responsibility of protecting forests above the orchards. Man's Relation with nature, is showing some sign of turning into a non-antagonistic struggle.

The relative success of group borrowing for group investment has led to further innovation, which represents the third phase. In the Tupche Project area there are total of 40 small farm groups. With bank's advise and encouragement, seven groups (Group No, 40, 41, 43, 35, 20 & 9) have joined hands to launch a joint cottage industry project based on inter-group co-operations. Under a bank loan of Rs. 250,000, the seven groups are co-operating to install 50 manual looms that will employ 50 men and women who previously did not work during their spare time or were simply unemployed. Each seven group owns this enterprise. Each group sends one representative as the board of directors who are responsible for the overall management. The directors have hired one controller and one technician, and they take an active interest in the operation of the enterprise.

The textile company represent further advance in co-operation since it requires inter-group coordination in decision making and also raises new problems in control. The owners of the enterprise are all the members of the seven groups or about 126 people. The factory belongs to them and the people in the management committee are their representatives.

The establishment of the textile venture has been a new source of income and employment to the unemployed, under-employed and the landless. It represent a possible strategy of rural industrialization that will create new jobs and opportunities in the rural areas while encouraging the process of rural accumulation of capital for further expansion and growth. It opens up new possibilities of avoiding lop sided,

capital intensive urban based industrial development in favor of a technology that reflects better the factor endowments characteristics of the nation. The wide diffusion of ownership on the other hand, discourages the possibility of rural industries becoming one more avenue of rural exploitation and the export of capital from the village to the urban centers in the nation.

The development of rural industries based on inter-group co-operation is also a reminder of the fact that the group concept if it proceeds in stages, is capable of developing organization and management skill of considerable complexity even at the village level. In this sense, the new industry at Tupche represents a decisive advance from the second phase where the activity domain did not extend beyond the group. For the management of the cottage industry, seven groups have to co-ordinate their action and they have to choose representative and delegate to them the management function. For the member in the management committee, the type of decisions that will have to be made will range from raw materials, procurement to technology and markets. Linking these three elements so that the enterprise runs at a profit represents complex managerial functions that a subsistence farmer working individually, could hardly be expected to understand. And yet, within a period of four years, the acceptance of income class as a basis for group formation and for individual and joint economic activities has changed the psychology and organizational skill of the poor to such an extent that he can now feel comfortable in managing an enterprise that employs over fifty people. This is not to suggest that there are no problems, with the new venture. Marketing of output is already major worry, similar other difficulties are emerging and their solution will require the complimentary support of other governmental agencies. Whether or not this will be coming is also a major question, as we will show later in the discussion. But, the beginning in inter-group co-operation in Tupche, opens new prospects for reducing rural unemployment and increasing rural income and capital formation based on the participation of the poor.

Section V

PATTERN OF INVESTMENTS AND TECHNICAL SUPPORT

During the last four years ADB/N has invested a total of Rs. 1.95 million in the project area. Out of this Rs. 6 million has been paid back. Loan outstanding to various groups as of January 1980 is Rs. 1.35 million.

The investment pattern of the bank in the project area is as follows:

Activities	Percentage of loan Investment	Type of Borrowing
Buffalow	52.82	Group borrowing for P.I.
Goat	9.80	" " "
Sheep	2.54	" " "
Pigs and Poultry	.47	" " "&.G.I.
Oxen	4.70	" " "
Production	9.75	" " "
Irrigation	.44	" " "
Consumption	.06	" " "
Vegetable	.06	" " "
Fruit orchard	4.17	Group borrowing for G.I.
Cottage Industries (Type 1)	3.67	" " "
Cottage Industries (Type 2)	12.82	Inter group borrowing for inter-group investment.

It is clear from table that in most cases group borrowing has become the institutional channel for private investments. Most farmers have invested in buffalow as a means of supplementing their income. This pattern does not pose a challenge to the existing attachment to private ownership among the small farmers. And yet, the concept of group liability creates a new structure of inter-dependence and inter-action among the members and goes on to unfold a new framework and consciousness conducive to collective action. This is where the training component also comes in the picture both as a necessary technical input as well as a bridge to close the gap between private investment and collective action.

In Tupche, each group has been asked to select members for short duration training in veterinary science, horticulture and so on. Once these people return back with their new skill they are in effect the technical experts of their respective groups. If the buffalow of a group member becomes ill, the group veterinary expert is there to provide preliminary medical services. He is given a 'veterinary kit' free as a gift when he completes his training. If he runs out of medicine, he can buy it in the local Sajha store.

Training as a component to increase the technical capability of the groups to solve their problems represents a decisive step in self-reliance and the promotion of a scientific spirit in dealing with the forces of nature. Furthermore, it

becomes a crucial group input in sustaining the profitability of private investment carried out under group sponsorship. Viewed with this perspective, even though most of the loan in Tupche has been directed to private investment, the concept of group liability and the supply of technical services under group sponsorship made possible through the training program has created new inter-dependence, self-confidence and a sense of belonging among the members.

Group borrowing for group investments in Tupche is only about 8 percent of total loan investments. The relatively low figure, however, cancels various strains working towards a self-reliant, process of development that is not in an antagonistic path with nature. Economically Phase II represents new investments in sideline economic activities primarily oriented towards the market. It is a means to increase the cash income of the farmers. Since it is a group project the new investments provide opportunities for an advanced level of group co-operation in decision making and the implementation of that decision for the benefit of all. It represents new unexplored horizons for the farmers to learn about the process of development— a process why they are the active participants.

Intra-group projects in Tupche has been concentrated primarily in horticulture but farmers are also taking interest in afforestation projects. A list of the projects undertaken so far is as follows:

<u>Group No.</u>	<u>Activity</u>	<u>Remarks</u>
		Average loan 10,00
8,7,16,22,23,35,41 34	Orchard	
20	Cottage handloom	
9	Poultry, orchard & fish	
22,8,9,35,15 & 33	Afforestation	
24	Bamboo plantation	
20,41	Kimbu plantation	

The technical training program has been of help for groups in undertaking their investments program. The nature of the group projects on the other hand promises to be a model for trying to solve Nepal's massive problem of soil erosion and deforestation. Investments in fruit orchard or afforestation strike at the root cause of soil erosion. It transforms the Nepali poor from a destroyer to a protector of trees.

The third phase in group co-operation as indicated by the intergroup cottage industry projects absorbs a sum of 12.5 percent. It represents an attempt to take industry where the people are instead of the other way round. Furthermore, the widespread diffusion of ownership and the management being in the hands of the poor represents a new social experience conducive to the evolution of an analytical frame of reference that assigns a central role to the masses in effecting new structural changes in the social system. Technology, in this process becomes a tool for increasing rural capital accumulation, improving income distribution and instilling a new consciousness among the poor regarding the wider social structure which they had always accepted as a fact of life only to be endured and never to be questioned.

From a planning point of view, the Tupche experiment in the establishment of industry by the poor represents a possible strategy for preparing the base to establish a hierarchy of development centers that act as the "missing link" between the villages and the few large towns in the country. If inter-group co-operation in rural industrialization becomes an important component of SFDP a whole range of agro-based and agro-related industries owned, operated and controlled by the poor could be visualized. To serve these new decentralized ventures in the villages expanded social overhead facilities and services will be required. This can be provided by the establishment of rural centers which in turn should constitute the base for larger development centers in the nation.

For the development center strategy to be successful, the start for industrialization must be made at the village level and then proceed upward over time. Often this consideration is ignored. Large development centers are established and only after heavy investments do planners in LDCs realize that the villagers are not in a position to take advantage of the new facilities. This leads to substantial under-utilization of investments and the so called "spread effects" hardly reach the countryside. Additional resources on the other hand continue to be allocated if only to justify the investments made in the past. Eventually even if the development center functions as an urban complex, it is not likely to develop the kind of linkage necessary for supporting a self-sustaining pattern of development of the countryside. Instead, it is likely to emerge as another urban center siphoning off rural capital and skill away from the villages. What, thus, start out as a "development center strategy" for supporting self-reliance and rural upliftment can end up as a vehicle for rural improvement and exploitation. To guard against such possibility, requires a rural industrialization concept that relies on the

masses. The village industrialization approach that is unfolding in the Tupche experiment opens new opportunities in this area.

It is worth noting that Nepal has adopted the concept of growth center as a means of balanced regional development. The regional development strategy as outlined in the 4th Plan envisages a sources of north-south road which would define the 'development corridor'. Growth centers would be located along these corridors. Resources will be concentrated in the growth center so as "to achieve economies of scale and agglomeration economics".²⁸ The north-south road link on the other hand was expected to "generate greater inter-regional circulation of goods, service and people. Thus the set growth poles along an arterial link will induce further growth in terms of agricultural transformation, location of industries, trade activities and social services."²⁹

The idea that the development impulse would radiate from the growth center to the villages has not materialized in Nepal. Attempts to impose growth centers from the top rather than develop it alongside a viable strategy of rural development including rural industrialization has been the basic mistake. While investments have been concentrated in the growth centers the villages remain neglected. No institutional link to promote new income generating activities involving the masses has been established. Economic lifting villages has remained stagnat thus limiting the possibility of an increase in exchange and the demand for many services that the growth center is presumably equipped to supply. If this trend contiaues the "suction effect" of the growth center is likely to be far more important than its "spread effect" over time.

The disappointment with the growth center concept, has led to its virtual abandonment by the planners. The Tupche experiment in inter-group co operation however, clearly reveals that the concept need not be thrown overboard if it is related with activities to generate exchange surplus, employment and rural industrialization at the village level involving the masses. It is only at this stage that the village economy can interact with the new development centers at different levels in a mutually beneficial pattern of exchange. This will be expressed in the demand for many kinds of services (e.g. marketing, storage, transportation etc.) which the village level economy will require for self-sustained growth over time.

28. *The Fourth Plan 1970-75*, pp. 288.

29. *Ibid.* pp. 288.

Capital Accumulation and Social Welfare:

The SFDP in Tupche has successfully promoted the idea of group savings. Members from each of the 41 groups deposit Rs.5 every month as group savings. Funds thus accumulated are utilized to meet the emergency requirements of group members so that they do not have to go to the money lender. Some groups charge no interest on such lending but there are also groups that charge as high as 4 percent interest per month. Groups charging high interest justify it on the ground that it is still lower than what the moneylender would demand. Besides, high interest rates as they see, is one way of quickly augmenting group fund in the future.

Altogether Rs. 66,800 has been collected as group savings and ten groups have opened a/c with the ADB/N at Trishuli, 5 km. to the south. Most of the group savings so far has been used for meeting occasional consumption requirements (festivals, illness etc.) rather than for investments, say as an equity base for loan. The availability of group savings, has increased the self-confidence of the farmers and has increased their links and solidarity with the group.

The emergence of the group at the grass root level has also made it easier for governmental agencies to develop their links with the poor. Among the villagers subjects like adult education, family planning, village sanitation, status of women are now easily discussed, accepted and implemented since the possibility of improvement in the quality of life is no longer in doubt. There are already six women groups in Tupche. They are engaged in cottage industry type activities for manufacturing different woollen and cotton carpets and cloth to be marketed through the woollen and cotton co-operative society. Manufacturing woollen carpet and clothes is one of the traditional skill of women in some parts of Tupche and SFDP is encouraging women to take advantage of these skills within an institutional framework that assigns them the central role in making decisions. Similarly landless peasants in Tupche have formed their own group. With the help of the bank and the local Pradhan Pancha they have been allotted small parcels of land belonging to the local middle school for cultivation. The bank has advanced them loan buying buffalo and oxen, and also for constructing housing accommodation. They are gradually standing on their own feet. From the bank's point of view loan to the landless is a good *business* since these farmers paying back the money in time.

In general for the small farmers in Tupche the parameters of the social reality are no longer constant. The villagers, themselves have been the participants in creating

this situation. This makes them as one of the principal actors in the process of development. Thus, disintegrative individualism that is devoid of any concern for the welfare of other human beings except the individual has been tamed to the extent that farmers are beginning to see their social conditions as something they can change if they act collectively. This is not imposition from above, but represents the slow unfolding of a new consciousness among the masses.

The Role of Government Agencies:

At the district level, the SFDP in Tupche has the backing of the sub-project implementation committee of small farmers composed of different line agencies in the district. Since Tupche has become somewhat of a showpiece of rural development involving the masses it draws numerous foreign and local visitors each year. The projects site is connected by a motorable road to Trishuli, the district headquarter, and Kathmandu the capital of the nation. This makes various inspection visit relatively easy and perhaps inevitable. This factor seems to have worked to the advantage of the project. Different line agencies that are represented in the sub-project implementation committee have been responsive and helpful to the project. But the fact still remains that under the present system of target oriented "agricultural development planning based on the concept of the homogeneous farmer" there is no incentive for the government bureaucracy to direct its attention towards the poor. This partly explains why in other project areas where the "local plus foreign VIP visit density per unit of time is not as high as in Tupche, getting support from governmental line agencies is a perennial problem."

SFDP and Local Politics:

One factor responsible for the relative success of SFDP in Tupche has to do with the leadership of the local Panchayat (village level political body under the partyless system of Nepal). The Pradhan Pancha or the leader of the local Panchayat is himself a small farmer. He has therefore been its supporter ever since the program was started. During the last four years as the program has gained momentum with a rapid expansion in the number of groups, the Pradhan Pancha's enthusiasm has also increased significantly. It is now becoming apparently clear that in any future election for the Pradhan Pancha, a person who has not supported the SFDP is not going to win. The poor in Tupche are now politically conscious to the extent that a large farmer or a moneylender is most unlikely to be elected in the leadership position.

Similarly, the poor in Tupche have representatives in the local co-operative which has to finance their investment programs. They are now using the co-operative to fight against the moneylenders and traders. Before the introduction of SFDP, traders and moneylenders advanced loan to the farmers on the condition that they would have to pay it back immediately after harvest when prices are the lowest. This allowed the traders to collect the maximum quantity of grain at the lowest possible price. After a few months, when prices would rise traders would then take grain to Kathmandu and sell at a handsome profit. Since this region is a food deficit area, the government however, would have to supply grain from Kathmandu during the months of scarcity. The irony of the situation is that the farmers would sell their grain during the harvest season at a low price only to buy it back again at a much higher price after a few months. From 1979, the small farm groups have made their impact felt on the issue. With ADB/N loan the local co-operative has constructed a warehouse. It is willing to receive payment of loan in grain and also provide pledging facilities. Farmer, now do not sell grain to the middleman. Paddy is used as payment to the bank, the price is set by the co-operative in consultation with the bank. Since the co-operative is now controlled by small farmers it has to be responsive to their interest. The co-operative thus has to strike a balance between its own institutional interest of survival and profit and the interest of the farmers. This year (i. e. 1979) after the harvesting season when the co-operative board was meeting to fix prices, a rather large delegation of small farm groups was there to press for higher prices. After much deliberation a procurement price of Rs 95 per muri was decided as being in the best economic interest of the farmers and the co-operative as well. This has been the highest harvest price that the farmers have received. The co-operative on the other increased its volume of business considerably and was fully able to take advantage of the price rise in Kathmandu. This represents one instance of the masses taking charge of their own economic life.

Increase in Self-reliance:

The group concept has given new avenues for the emergence of local leadership and the beginning of a participatory/democratic behavior as part of a collective decision making process for the economic and social upliftment of the poor. The groups are becoming more aware of their potentials for economic and financial self-reliance and are making concrete efforts to achieve it whether through group savings or the establishment of an inter-group industrial enterprise. There has been a rise in income and more opportunities available for employment. The groups are now more willing to experiment new ideas and concept that promise an improvement in the quality of life.

There is emerging among them a new feeling of power over their lives and social reality is no longer viewed as a constant to be accepted in a fatalistic manner.

Future Inputs & Problems:

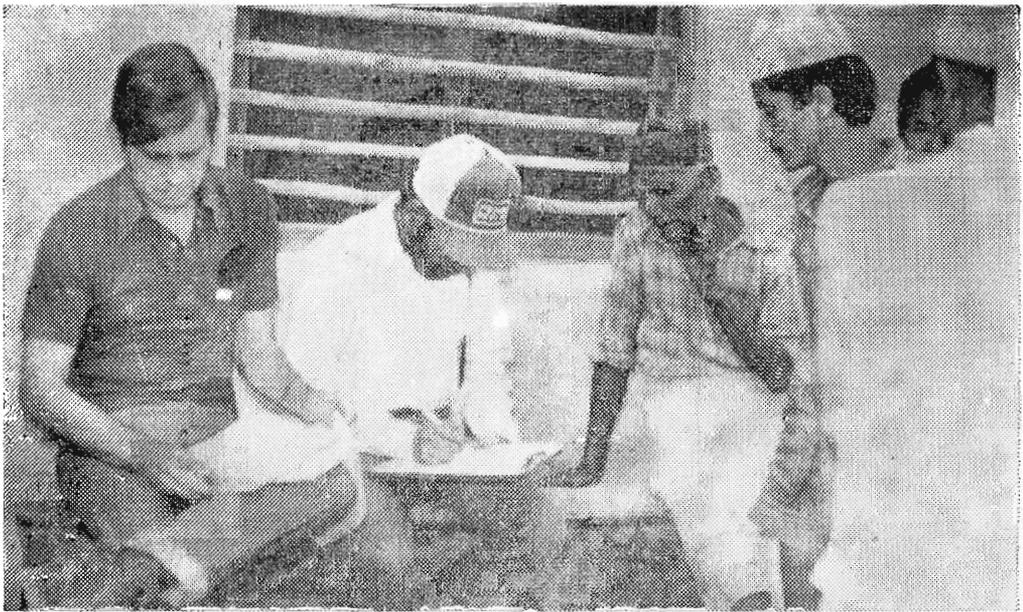
The progress made so far, however, have been crucially dependent upon the attitude of the ADB/N and its staff at the field. If the field office is moved away, some of the dynamism observed so far is likely to vanish. This is not because people do not want the new model. They want to move forward but the risks involved with the traditional village structure is great. Farmers are still reluctant to sever their links with the money lender since financial self-reliance has yet to be achieved. The inability of ADB/N to handle the consumption loan requirement of the poor under a 'total credit approach' still makes them hesitant to ignore the moneylender. Similarly the fear that a buffalo or an oxen purchased under group liability may die because of the lack of timely veterinary services acts as a brake in undertaking new investments. Essential skill in various areas like accounting, management, etc. will also be needed if increasingly complex task of village industrialization is to proceed successfully. The link with government field agencies is another area that needs to be strengthened. At the present, the SFDP office in Tupche is a sort of middleman between the various groups and government agencies. If farmers have problems that they can not tackle, they approach the SFDP office which in turn acts as lobbyist with the various government offices in the district. Farmers have still not developed the organizational strength to take over this function. Reliance on SFDP office, on the other hand, is not a permanent solution to the problem. If it is not properly tackled, the small farmers may actually develop a new form of psychological dependency relationship with ADB/N. Dependency on the moneylender may simply be replaced by the bank. One may point out that this is not bad since the bank is not there to exploit the people. But this argument misses the central point which is that the new form of psychological dependency on the bank, if it develops own pose to be a very serious impediment towards developing a sense of self-reliance as expressed in the confidence of the villagers, to analyze their problems, to search for solutions and implement it collectively. In this process the bank or the government agencies must be viewed advisors and collaborators but not as decision makers. A reliance on the bank staff for all external link, however, in the position of the risk of gradually putting the bank in the position of the decision maker. This factor will be of increasing importance in the future since the SFDP demands an integrated approach to rural development. The bank can provide the initial momentum through the availability of credit to the groups. But if it is to be maintained and result in a progressively higher level of co-operation

complimentary inputs in the form of training, technical services, marketing etc. must also be forthcoming from the various government agencies working in the field. One way to have these services available to the poor is to make them organizationally strong enough so that they can collectively demand for external assistance that they are not able to provide themselves. To reach this level of organizational strength and consciousness, however, additional financial, organizational and ideological inputs and working experience will be required. Future banking policies must also help to promote, financial self-reliance, increase rural capital accumulation, discourage export of capital to urban centers and encourage the poor to be involved in the management and operation of banking activities in their areas. It must become a part and parcel of the life of the poor, something he can comprehend, understand and manage as a tool for achieving self-reliance and growth.

The Tupche experiment, then stands at a relatively advanced stage in rural co-operation, among the poor. It has gone beyond the stage of intra-group co-operation to inter-group co-operation. If further progress in achieving a self-reliant pattern of development is to be achieved what are the problems that are likely to emerge? If new institutional innovations are necessary what does it mean in terms of concrete organizational forms? Similarly what kind of change in governmental strategy or that of ADB/N is necessary, to sustain further progress? Given the constraints of Nepali politics and the social balance of power characteristics of the system at the present, how much margin of flexibility can we expect? Or more simply the crucial question is: where do we go from here? These are important questions. Based on our field study of other SFDP areas we develop our ideas on these issues in the later section.



Mr. Shiva Hari Achet, incharge of Soil and Water Conservation Project Office, highlighting the services provided by the line agencies for the success of SFDP.



Mr. Bhola Nath Pokharel (Second from left) a student of Ohio State University, USA, getting acquainted with the real problems of small farmers during Field Trip in Tupche, Nuwakot,

Small Farmers Development Programme Problems and Prospects

—Dr. T. N. Pant

A Review of Development Performance:

With 25 years of planned development efforts, agriculture in Nepal is still characterized by the subsistence type of farming with most cultivated land under food-grains. Recent estimates indicate that 94 percent of the population is dependent upon agriculture and that 85 percent of the total exports originate in this sector contributing 66 percent to GDP. But the land base for agriculture is small both in terms of acreage and as a percentage of total land area. In terms of agriculture output, land use efficiency is quite high, labour efficiency extremely low.

Land holdings in Nepal are, on an average, so small and scattered that many farmers are scarcely able to even maintain their families on subsistence level. The problem has aggravated further by the rapidly growing population which has been now estimated to be in the order of 2.6 percent per annum. The high growth rate of population has nullified the development effort. As a consequent, nearly 50 percent of total population is still surviving below the poverty line of US \$ 60 per capita which barely provides even the minimum basic needs. In the past though Nepal's achievements have been very impressive in terms of institutional and socioeconomic infrastructural development, she continues to be exceedingly poor by any standard. Past development efforts have not yet resulted in any improvement on the quality of life of the Nepalese farmers. As such the challenge has become much more complex at present than it was some 25 years ago.

Despite the cumulative efforts made at national and international levels, the performance of the agricultural sector over the 25 years has been disappointing.

Investments in this sector have been increasing over the decades, yet agricultural output has only registered a meagre rise of 1.7 percent per annum a rate considerably below the population growth rate of 2.2 Percent Per year over the decade 1968-78. Within the agricultural sector foodgrain Production increased only at 1.0 Percent. Yield rates for most of the crops remained sluggish or even stagnant, whereas for some crops it has actually declined. The hill is food deficit and labour surplus while tarai is food surplus and labour deficit. Moreover, the food surplus is dwindling every year. As a consequence, export is declining with trade gap increasing every year.

Until recently the pattern of Nepalese agriculture was governed by traditional modes of seeding, irrigation practices and manuring. Efforts were made during the second and subsequent five years plan periods to boost agricultural productivity through the use of chemical fertilizers, improved seeds, irrigation practices. However, the results merely displayed a cosmetic effect with achievements falling considerably short of target goals in the use of these inputs.

Even though there undoubtedly exists great potentiality for the rapid development of agricultural sector, the desired goals envisaged by successive national five years plans have proven to be a more wishful thinking. Depressing performance in agriculture has thus pulled down the overall growth rate in Per capita earnings which have plummeted to near zero levels with adverse effects on the general welfare of the people.

Apart from other physical need for such state of affairs, could be attributed to factor, the lack of proper policy aimed at helping the small farmers in the development Process. It is, however, recognized that unless development policy is directed towards the small farmers, trickle down effect can not be achieved. This then will lead us to face the rising probability of slower economic growth and thus finding ourselves amidst absolute poverty. Whether we like it or not, this is to be expected This is evident from our development experiences. Otherwise, why is it so that after 25 years of development efforts, the relative position of agriculture in the economy has not changed at all and that the vast majority of farmers still survive at the subsistence level ? Realizing this, two experimental small farmers development Projects were launched in the fiscal year 1975/76 for the benefit of small farmers and landless labourers. This Project aimed at providing necessary services and facilities to the low income and backward small farmers and landless labourers with a view to raise their socio-economic status and enable them to lead a more respectable life.

Small Farmers Development Programmes:

The main objectives of these Programmes are to raise the economic condition & social status of the farmers by organising them into groups and providing them necessary support as a package to carry out the following Programmes.

- (a) Creation of employment opportunities through introduction of income raising subsidiary activities like cottage industry, Poultry, duck-raising, kitchen gardening, buffalo farming, sericulture and apiculture.
- (b) Provision of credit, supplies and other services to the groups required for carrying out their different activities.
- (c) Provision of small farm technology.
- (d) Social service programmes such as adult education, health, sanitation, water supply, family planning.
- (e) Programmes to train group leaders and member farmers on different fields of activities.

As of February 1979, nearly 840 small farmers and landless labourers of Nuwakot and 516 small farmers of Dhanusha have been organized into 41 and 43 groups respectively. Both economic and social programmes have been carried out by these groups. Economic programmes include crop production, poultry keeping, goat raising, buffalo farming, fruit orchard and cottage industry. Adult education, family planning, sanitation and water supply are notable social activities carried out by the groups.

As these programmes have shown a visible impact both in respect of increasing their farm income and improving their living conditions has resulted. Such schemes have therefore been extended to other 34 areas.

The Government is placing greater emphasis on the development of small farmers in the coming sixth plan and therefore proposes to extend this project gradually to cover all the districts of the country.

Development Problems:

The poverty and subsistence-orientation of most farmers create significant obstacles in the delivery of inputs to farmers. Where production is largely for subsistence, incentives to diversify traditional crops are lacking, and hence, marketable surpluses and cash flow to the farm family are also negligible. This makes it very

difficult for farmers to finance the purchase of new productivity-enhancing technologies. Where there are major food deficits, any increase in output is likely to be used for immediate consumption, thus making any development of the agricultural product market difficult.

Another major area of difficulty results from the logistical problems created by the rugged terrain. Not only are hill farmers subsistence-oriented because their holdings are small and scattered and they can barely feed themselves, but also because, despite recent massive investments in transport sector, substantial areas of the country are not in a position to move any surplus they may have to the markets. Likewise, the remoteness of the areas increase the delivery cost of agricultural inputs to farmers. While the government may subsidize the cost of inputs to farmers and also the cost of food to the deficit area. Nevertheless, delivery of inputs and food to the area is bound to reflect in our extra expenses. The government may also face other important demands on its financial resources which constrain the degree to which such subsidies can be provided.

Small farmers, who own less than 1 ha. of land, comprise nearly 85% of the farming families. Small farmers who, by nature, are too hesitant about accepting new technology, need special incentives. Since large farmers are better placed vis a vis small farmers, they will be the primary beneficiaries of any new programmes launched at the village level. For that matter, even programmes which are primarily launched for small farmers have ultimately benefited the bigger farmers. This is evident from the operational history of cooperatives, which have distributed only 40% of total credit to the small farmers, whereas the primary objective was to direct all the credit to small farmers. Further, institutionalization of credit has not been successful or even effective where small farmers are concerned, and only 9% of total credit requirements of small farmers is, currently fulfilled through institutional sources. An examination of the performance of Agricultural Development Bank reveals that production credit is the most neglected area, and accounts for only 20% of the total credit advanced by the Bank. The areas where most of the Bank's loans have been channelised are related to tractorization, pumps, tea plantation, horticulture, poultry, processing industries and warehousing where benefits accrued mainly to the richer people. Since use of new technology is a function of knowledge, accessibility and incentives—all of which are almost lacking in the case of small farmers—the use of improved seeds and fertilizers by a majority of such farmers is, understandably seriously handicapped. While it appears that big farmers are approaching saturation points, regular use of improved seeds and fertilizers by small farmers is restricted. This, then is one of the primary

cause for the apparent decline in agricultural productivity.

Regarding the supply of inputs, the operation of the Sajha (which are the sellers of inputs to farmers and the buyers of farm product at the village level and also the commission agents of different corporations and companies) has not been satisfactory due to a number of factors. The managers who are normally non-locals belong to the bureaucratic setup and are, consequently, unfamiliar with village life. The Sajha merely functions in the role of a supply agent. There is no one in the Sajha to teach to farmer about the right proportion and method for using new inputs. In other words, the Sajha works only to 'dispose' of the existing stock but not to 'create' additional demand. Further, since the Sajha, at local levels, is dominated by the big farmers, the latter are served at the expense of the small farmers. The philosophy underlying the establishment of Sajha is to help the small farmers with, both, pre-harvest and post-harvest activities. Since its performance is generally judged by the profits made has led it to become commercial-oriented institution rather than a service-oriented one.

Finally, despite the Government's efforts in devising a commendable organizational set up for helping the farmers with package programmes, actual results have found below the expectations primarily due to lack of coordination between individual agencies. As a result, whereas these agencies have not been able to meet their targets, farmers, on their part have yet to receive benefits from government programmes.

Development Prospects:

The development and diffusion of yield-increasing agricultural technologies is often viewed as the key mechanism to boost up agricultural output and thereby improve the living conditions of the rural population. Such technologies, though considered new, almost always involve the use of traditional and modern inputs on an empirical basis. The right varieties, right doses and right combinations (to the right time) of inputs like seeds, fertilizers, water, pesticides or tools at the right time, are the main characteristics of this novel technology. The successful utilization of such technologies may depend on a strong programme of adaptive research and a broad extension programme designed to introduce these technologies. Proper utilization and meaningful results can be obtained only when the system incorporates a steady flow of these inputs to farmers and output to the market. The inability to deliver these inputs as a package to farmers and an unorganized market for the produce may frequently inhibit the diffusion of these yield-increasing technologies, and thus

represent a limiting factor on growth of the agricultural sector. Therefore, the SEDP not only needs to overcome the difficulties in identifying the appropriate and productive technologies and disseminate them to farmers, but also, equally, needs to tackle the problems encountered in delivering these inputs to the farmers and also requires the development of post-harvest technology and an organized market mechanism for farm produce.

Research into what constitutes an appropriate technology is, therefore, of vital importance, Agricultural research in Nepal must be problem-oriented. Problems encountered in the field should be continuously fed back into research; and the results from research must be disseminated to farmers so as to obtain their evaluations. This process holds great promise although it is not, as yet, working with satisfactory success. The recent move to employ farmer group leaders as extension assistants may help to bridge the gap between research and extension.

Improved varieties cannot be introduced without adequate adaptive research and trials, both, on the government farms and also in farmers' fields. Experience with rice, maize, potatoes etc., have shown that hasty introduction of new varieties without sufficient testing under local conditions, will lead to failure.

Agricultural research and economic analysis must be conducted to establish the conditions under which the use of chemical fertilizer is appropriate. Selective use of chemical fertilizer may be highly valuable in some instances, though others, the use of improved composting technique may be more appropriate. Therefore, it is time to conduct research to determine a more effective technique. An attempt towards substitution of imported fertilizers is the only way to dodge the difficulties that might often plague the country.

All possible increase in use of organic manure should be encouraged. Since chemical fertilizers have to be purchased with convertible foreign exchange, it is reasonable to expect that, in the near future, import of fertilizers will face financial difficulties due to uncertainties in the international market. In Nepal, the situation will be aggravated further by high transportation costs. Therefore, the price ratio of fertilizers to output is expected to deteriorate in the country—especially in the hills. The gigantic requirement estimate of fertilizer implies that, the government will have to subsidize it heavily in order to meet the demanded dosage. This again, seems difficult in the light of limited financial resources.

Many of the irrigation projects so far completed in Nepal have not been optimally used. The government, quite often, tend to lean towards improvement of the newly-constructed project even without commissioning it. This trend needs to be stopped since it results in a loss of confidence on the part of the farmers, and simultaneously, leads to waste of limited resources. An appropriate organizational mechanism should be devised at the local level to ensure continuous maintenance through local participation. The most effective way to provide irrigation facilities may be to encourage small-scale self-help schemes, wherever possible. Local institutions should be responsible for managing such projects although financial and technical support will have to be extended by the government during the early phase of such projects.

At the farm level, crops should be considered in conjunction with livestock since the typical Nepalese farm is a mixed crop-livestock enterprise. Improvement of the farmers' conditions may not be possible in view of the small holdings, without the development of an integrated crop livestock approach which should be combined with an integrated rural development approach.

Even though the use of modern technology is inevitable to increase the productivity of Nepalese agriculture, the diffusion process has been very slow in the past. This is firstly, due to lack of infrastructure such as irrigation, transport, communication, storage etc., and secondly, due to lack of coordination among supporting services. The diffusion system for technology, the delivery mechanism for the inputs and the market mechanism for the farm products should be such as to place small farmers in the control role. This could be achieved only by farmers' groups at the village level, which will not only increase the bargaining capacity of those smaller farmers, but also render the work of supporting agencies more viable and easy.

In Nepal as in any other countries, planning is generally a top-down process, where the beneficiaries do not have any involvement in the process. As a result, most of the programmes are far from reality. Therefore, planning must consider the involvement of mass participation which could be achieved only if a mechanism that incorporates bottom up process in planning as well, could be devised. And it is the group approach that can fill up the gap.

Though both agriculture and industrial sector in Nepal are mutually supportive, agriculture is generally treated only as a way of life. So long as this tendency continues, so structural change in agriculture is possible and it remains to be subsistence oriented.

Though industrial approach to agriculture in an economy with millions of farmers with small land holding may be difficult to conceive both theoretically and practically at the first instant nevertheless, action in this direction can be materialised by organizing several groups of farmers throughout the country and by treating each group as an industrial unit.

Current Issues in Agricultural Finance: Interest Rates and Savings Mobilization

—Richard L. Meyer

Introduction

Mr. Chairman, and Ladies and Gentlemen. I am at a double disadvantage in presenting this paper. First, we have just finished an excellent lunch and we've all eaten too much for good concentration this afternoon. Second, some of you have heard Dale Adam's well-polished presentation on these issues, and his is a tough act to follow. Dale loves to discuss these topics and does an excellent job of it. Unfortunately, illness in the family prevented him from attending this workshop.

Since we have little time this afternoon to fully develop a complicated argument, I'm going to present only the basic outline of the arguments relying on Dale's work and encourage you to consult his publications for further details. His arguments can be found in the following papers: "Policy Issues in Rural Finance and development", "Small Farmer Credit Programs and Interest Rate Policies in Low-Income Countries", "Recent Performance of Rural Financial Markets in Low Income Countries", and "A Critique of Traditional Agricultural Credit Projects and policies".

The Central argument is this: In spite of the wide variety of institutions, policies and programs found in many countries, rural financial markets are not performing in a satisfactory manner. In fact, Dale has referred to most of them as failures. The reason for the poor performance is that in spite of the uniqueness of any specific program in any specific country, most programs are built on a common or similar set of assumptions and policies. It is precisely the nature of these assumptions and policies which contribute to the failure of the financial markets. A new strategy or

1. Complete references are given at the end of the paper.

approach to rural financial markets is required if they are to function in a more satisfactory manner.

Analysis Of Current Strategies

The basic strategy used by many low-income countries regarding their rural financial markets has been referred to as a "supply-led" approach to financial development. That is, financial services are expanded with the expectation that economic development will then follow. In the area of agriculture, the expectation is that increased agricultural credit will lead to increased output, employment, income exports or whatever macroeconomic goal policy-makers have in mind.

Given this view, governments attempt to increase the quantity of financial services in rural areas and / or reduce the cost (interest rates, etc.) of such services. There are seven methods that countries frequently employ :

1. Create new specialized lending institutions for agriculture and / or small farmers.
2. Increase the aggregate supply of loanable funds for existing formal lenders through rediscount arrangements with central banks, foreign loans, and other means.
3. Nationalize commercial banks and attempt to then direct them to lend to specific priority sectors.
4. Establish lending quotas such as Thailand's policy whereby commercial banks are required to lend 13 percent of their deposits to agriculture.
5. Specify loan size limits and thereby try to force lenders to alter the size distribution of their loans.
6. Entice lenders to make agricultural loans by risk reducing measures such as loan guarantees and crop insurance.
7. Establish differential lending rates where a) the rates for agriculture are set lower than those for nonagricultural lending, and b) set the rates for certain types of loans (Such as loans to small farmers) at especially attractive levels.

What are the problems with these methods ? Why do we conclude that rural financial markets are not performing satisfactory ? Or are even a failure ? Ten problems are fairly common.

1. In spite of the objective of increasing credit supplies, in countries such as the Philippines and the Dominican Republic (and perhaps eventually in Thailand), the

nominal value of the agricultural credit portfolio fails to keep pace with inflation. In other words, the real amount of agricultural credit lent or outstanding declines.

2. Many institutions face serious loan repayment problems which contributes to the decline in volume of credit.
3. Lenders systematically resist expansion of their loan portfolio into agriculture.
4. The agricultural lending which does take place is largely concentrated among large farmers.
5. Most agricultural lending is short-term with little increase in medium or long-term loans.
6. Rural savings capacity is assumed limited so little effort is made to mobilize voluntary savings.
7. Although interest rates are set at low levels, non-interest costs imposed on borrowers by bureaucratic procedures raises costs so much that it may be cheaper to borrow from the so-called "usurious moneylender".
8. Rural financial markets are fragmented: they serve only a specific class of borrowers and there is limited competition among institutions or between formal and informal sources.
9. Rural financial markets contribute to the worsening distribution of income experienced in many countries.
10. Relatively few financial innovations are being tried. There is little experimentation and little opportunity for an innovation to spread beyond a pilot basis.²

To summarize the current situation then, few farmers are benefitting from the credit, much is not being repaid and the total volume of agricultural credit is not rising in spite of large programs and foreign loans. Many lending institutions are in bad financial condition, several have failed and have been taken over by a new institution, given a fresh injection of funds, and now the new institution is in trouble. Farmers that are lucky enough to get loans, get behind in their payments, learn that governments rarely force collection, and know that even if they are denied more credit, in a few years another institution will come along and lend to them. Nonpayment of loans is becoming acceptable, irresponsibility is becoming legitimized, and politics are increasingly entering the normal business process of lending and repaying loans.

Since the problems are similar in so many countries, it is logical to look for common explanations. The following reasons seem to be behind many of the problems.

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2. The paper by Gary Adams to be presented in this session will explain and interesting agricultural credit experiment currently underway in Bangladesh.

1. Many of the new specialized institutions have access to and depend on "cheap" money. Frequently the government that creates them does not expect that they should go into the financial market and compete for savings. Instead, a line of credit is provided by the Central Bank, the government provides a large share of the equity capital, and low interest foreign loans are obtained. Thus, the lender gets accustomed to a cheap source of funds, rural persons are denied the possibility of saving where they borrow, and borrowers develop little sense of responsibility for the institution since their savings are not invested in it.
2. Most countries use subsidized interest rates for their agricultural lending. That is, the rate set for agricultural loans is less than for other sectors, is usually below a rate which might represent equilibrium, and frequently the nominal rate is below the rate of inflation. These subsidized rates create five problems. First, negative interest rates imply the real value of the agricultural portfolio declines even if all loans are repaid. Second, the rates are frequently set so low that lenders have few incentives to lend. Third, when interest rates are set lower for small farmer loans than loans to large farmers, the lenders obviously concentrate their loans among large farmers. Fourth, lenders try to concentrate their lending in short-term maturities, so the funds can be relent to other sectors generating more revenue. Fifth, when interest rates are set very low, there is excess demand as borrowers attempt to borrow more than lenders prefer to lend. This leads to some type of non-price rationing of loan funds. Expensive procedures must be used to try to police the use of loan fund and prevent diversion to other than approved uses.
3. Most lenders distrust their borrowers and feel they, rather than the farmers, know best what should be done with the loan funds. Thus they develop "approved" purposes for loans and procedures to ensure approved usage. These procedures, however, raise the lender's costs of operations, raise borrowing costs to the borrower, and formal credit becomes less valuable than informal credit with fewer strings attached. Thus farmers tend to repay informal loans, while letting formal ones go delinquent.

New Strategy for Rural Financial Markets

The poor performance of financial markets has led a number of analysts to argue for a fundamental overhaul in approach. Dale and others have argued for a four-part strategy to correct some of the current problems.

Savings mobilization rather than credit allocation is the focus of the new strategy. The research of Dale and others has led them to believe that savings capacities in rural areas are far greater than previously assumed.³ What is required is greater access to sound financial institutions which pay attractive rates on savings. Households would benefit by being able to convert unproductive investments of gold, jewellery and excess inventories into productive financial assets. This would give an opportunity for poor people to save whereas they have been traditionally ignored by urban-oriented savings institutions. It would also give them a vested interest in their financial intermediary and make them more concerned about repayment of loans.

A second part of the strategy is to employ higher and more flexible interest rates. If attractive rates are paid on savings, the interest rate must go up on lending. A sufficient margin or spread must be available for the lender to cover costs. Prices or interest rates, rather than noninterest means, would be used to allocate loans. Rather than as currently assumed, farmers are less likely to be concerned about interest rates and more concerned about total borrowing costs and overall reliability of the lender. Furthermore, it is expected that the rate of return on investments in rural areas is higher than normally assumed.

Third, greater emphasis is required on reducing borrowing costs. As controls are reduced and procedures streamlined, formal loans will become more valuable and farmers will be more concerned about repayment. Borrowing costs may actually be lower even though interest rates increase.

Fourth, incentives rather than controls should be used more freely to encourage a broader range of institutions to provide credit and savings services in rural areas. Less concern should be given to specialized institutions. Rather, the impediments that lenders presently face which prevent offering broader services should be identified, and reduced or removed. It is possible that the stereotype of the conservative lender uninterested in lending to agriculture is really a result of improper incentives.

Conclusion

In this paper I've briefly outlined the problems of many rural financial markets, and some of the common causes. Even though there a wide variety of programmes, policies

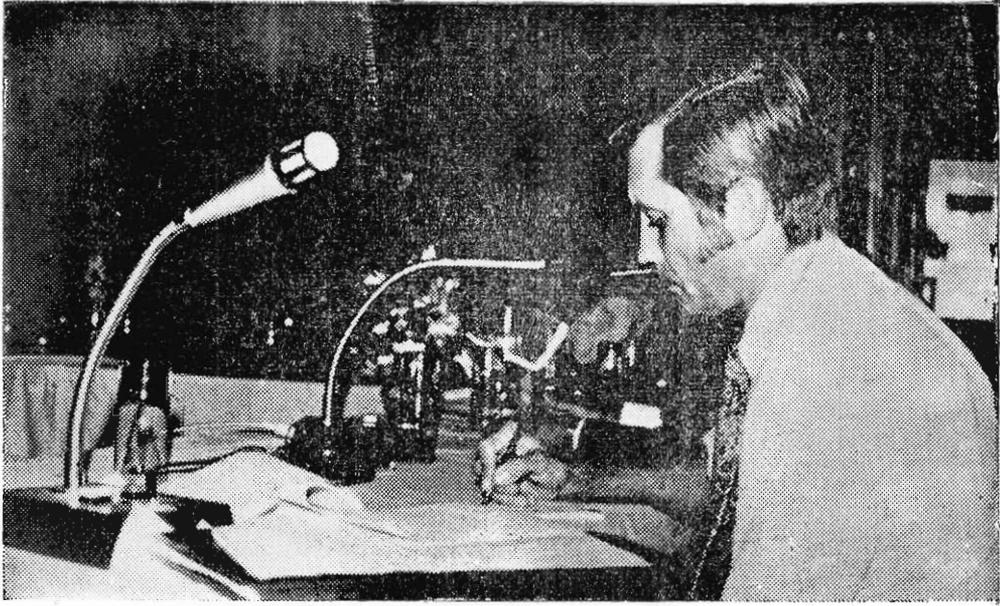
3. Adams' research has focused largely on Taiwan and Korea. Yunus' paper presented in this Workshop also implies a high rate of return on rural investments in Bangladesh.

and institutions are used in many low income countries, progress has been limited due to several incorrect and/or untested assumptions. A new strategy has been proposed by Dale and others that includes more emphasis on savings mobilization, higher and more flexible interest rates, greater attention to borrowing costs rather than interest rates, and more incentives for lending by existing institutions with less concern for creation of new specialized ones.

These changes will certainly never resolve all the agricultural development problems of low income countries. It is unrealistic to believe that finance can do that anyway, particularly in a country like Nepal where the natural resource and ecological constraints are so obvious. But sound, progressive rural financial markets would be a step in the right direction.

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Prof. Richard L. Meyer busy with taking notes of the valuable questions raised by the participants on his paper.



Mr. M. A. Majid Molla (extreme left) sharing his experiences about small farmers development and credit policy of Bangladesh with the participants.

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Experimental Approaches to Rural Finance in Bangladesh – First Year Findings

—Gary D. Adams

A. Background

A. 1. *The Problem*

Institutional credit reaches only a small percentage of the rural poor in Bangladesh. Negligible amounts of credit reach the 77 percent of rural families who cultivate two acres or less of farmland or are landless. Shortages of rural production credit restrain the adoption of improved technologies such as HYV cultivation, thereby restricting productivity and incomes for small farmers and other rural producers. Rural producers with no access to institutional credit often rely on non-institutional sources of credit under land mortgage schemes or at usurious rates of interest. Such borrowers retain little of the surplus product of such borrowing, and risk being divested of their land.

A. 2. *Prospects*

Immediate production and equity benefits are achievable through rural credit, but there are inherent difficulties involved in using credit as a development tool. Besides credit, rural development requires economic incentives, appropriate technologies, and rural infrastructure such as irrigation, input supply, transportation, markets, organization, etc. There are questions as to what volume of credit the rural poor can effectively utilize and about what credit policies and procedures (e. g. interest rates, collateral requirements etc.) are needed to reach the rural poor. The Rural Finance Experimental Project (RFEP), currently being funded by AID, was designed to help answer these questions. Preliminary RFEP results encourage modest optimism that major obstacles can be addressed and an effective credit distribution system developed.

A. 3. Rural Finance Markets in Bangladesh

Rural financial markets in Bangladesh are characterized on one hand by a large unmet credit demand and on the other by inadequate supply.

Demand: On the demand side, the great bulk of the rural population who need loans are extremely poor, geographically isolated, illiterate and traditionally cautious. They want small uncollateralized loans with flexible repayment terms for multitudinous purposes they don't have access to credit under normal programs. Their access to credit and ability to improve their condition is constrained by lack of land or land titles; heavy underemployment; limited savings; dependence on local elites; tradition, ignorance and illiteracy; irregular income flows and lack of other resources and skills.

The relatively well to do rural elite, comprising perhaps one-sixth of the rural population or less, do have the resources, knowledge and social power to compete strongly for available institutional credit.

Essentially, rural credit demand is a derived demand, useful mainly for its income earning power, and is dependent on the overall structure and performance of the rural sector.

Supply: Credit supply is constrained by a shortage of capital, inadequate institutional capacity and incentives, and procedural requirements. Informal finance markets (money lenders etc.) are basically "lenders" markets with very high interest rates (over 100% per annum). Lenders are in a position to capture most of the benefits of credit. In Bangladesh, money lending is believed to be an important method for acquiring land from marginal farmers.

Most institutional rural credit is offered at about 11.5% interest. Revenues from interest are too low to cover the costs of administering the program. Default rates are extremely high. As a result, financial institutions consistently lose large amounts of money in their agricultural lending programs, severely eroding the capital stock remaining for future lending. These losses reduce the institutions' incentives to serve the rural poor. Further, efficient bank operations are discouraged. Since each rural loan entails a loss, more loans means more losses, and bank managers are reluctant to push for large well run rural credit programs. Losses restrict the amount of funding available for the development of bank staff or outlets.

Bank procedures for agricultural credit have been greatly simplified but bank practices still constrain credit supply, e. g., collateral requirements, acceptable loan purposes, good credit rating, literacy etc.

Institutional credit is very inequitably distributed: The rural elite capture the very limited amount of cheap credit available. They can meet the borrower criteria and cope with the application forms and other administrative requirements. They command social/political power to elicit favorable treatment from local officials.

A. 4. Description of the On-going Rural Finance Experimental Project

In August 1977, the Governments of Bangladesh and the United States signed a \$7.0 million project agreement for the Rural Finance Experimental Project (RFEP). The purpose of the RFEP is to develop or identify one or more rural financial systems for meeting the needs of poor rural producers not presently reached by institutional credit. The nine principal rural finance institutions in Bangladesh are demonstrating and testing nine different systems under the project. Overall project management is the responsibility of the Central Bank of Bangladesh—the Bangladesh Bank. The target group is defined essentially as family heads owning 2 acres or less of cropland, with an annual gross cash income of \$ 400 or less. Indicators selected to verify achievement of the project purpose are:

- 1) Credit reaches a substantial portion of the target group and is not diverted to larger rural producers;
- 2) Target group productivity and incomes are increased;
- 3) Lending institutions cover their operational costs through interest and finance charges, and are motivated and capable of expanding rural operations;
- 4) Loans are substantially recovered with interest;
- 5) Rural savings are mobilized.

A number of policy, organizational and procedural variables are being tested, including credit interest rates; savings interest rates; village outlets; savings promotion measures; multiple loan purposes; simplified forms and procedures; loan supervision; personnel policies and incentives; local planning; group lending; etc. Each variable is demonstrated to assess the impact on achieving project objectives. For example, credit interest rates of 12%, 18%, 24%, 30% and 36% are being tested to assess the impact of different rates on: (a) reaching the target group; (b) credit demand; (c) borrower benefit/costs and (d) lending institutions' financial position.

A basic hypothesis being tested by the RFEP is that interest rates which reflect the actual cost of credit are crucial for overcoming major constraints to the delivery of credit and savings services to the rural poor. Full cost credit is expected to: 1) reduce the distribution bias toward the village elite who normally "capture" cheap credit; 2) augment the financial viability, incentives and capability of financial institutions to serve the rural poor; and 3) mobilize local capital and expand the total supply of rural credit available to small rural producers.

AID funds are used to partly reimburse the nine institutions for loans made to and recovered from the target group. This contribution is designed to encourage experimentation by the lending institutions by reducing their risk, augmenting their capital base and offsetting startup costs.¹ A considerable amount of project evaluation and field research is built into the project to permit assessment of project success or failure and the related reasons.

Assuming that the project is successful in demonstrating a reasonably acceptable system for reaching and benefitting the target group, the opportunity exists for the Bangladesh Government and USAID to proceed in 1982 with a major follow-on credit program aimed at meeting a substantial portion of rural credit needs in Bangladesh.

B. Current RFEP Status, Accomplishments and Shortcomings

B. 1. Summary

After one year of actual field operations, the RFEP has registered promising performance in extending credit and savings services to the rural poor who were previously excluded from institutional services. Borrowers report that they expect the loans to benefit them much. Borrowers find the higher interest rates quite acceptable.

1. Reimbursement to the participating institutions is done as follows: All loans are made by the participating institutions from their own resources. The Bangladesh Bank (BDB) periodically reimburses the participating institutions (using AID funds) for one-third of the value of each loan disbursed to a target group borrower in a project village. Later, for each loan repaid by the borrower on time with interest, the BDB reimburses the participating institution an additional one-third of the loan value. Funds received from the BDB go into the participating institutions' wholly owned assets. This "1/3+1/3" formula provides strong incentives for disbursement to the target group and for recovery. The formula should also increase the amount of capital held by the institutions for additional rounds of rural lending.

Demand for loans is high. The majority of the rural poor perceive that they have productive investment opportunities if only they had the funds. Based on preliminary data, repayment performance has been less than satisfactory overall, but a number of experimental areas are demonstrating excellent loan recovery. Experimental outlets have not generated revenues sufficient to cover costs but this objective is attainable by increasing lending volume and minimizing default. Management and procedural deficiencies are constraining credit delivery and recovery and require correction. Most target group borrowers have opened savings accounts but the savings programmes has gotten off to a slow start and needs improvement. Participating institutions are actively engaged in the project. Managers of the participating institutions seem to be increasingly aware of the unparalleled opportunity offered by the RFEP to formulate better rural credit systems. Cooperation is excellent and interest is growing.

In sum, the project is demonstrating good potential for effecting major improvements in rural credit programmes. Attention is being focused to correcting programme weaknesses. Underlying everything is the importance of developing and nurturing productive and honest performance by village level loan officers.

B. 2. Discussion of Findings

The main RFEP lending program actively began in March 1979. Current project status and preliminary findings based on this experience are noted below.

Loan Disbursement: As of December 31, 1979, 9,492 loans valued at \$ 820,307 had been disbursed in sixty-nine experimental areas. Average loan size is about \$ 80. Crop loans comprised 23% of total lending; other agricultural loans, 34% and non-agricultural loans, 42%. The rate of disbursement is about half the targeted rate set in early 1979. The slow rate of disbursement results from normal start-up delays, weak institutional credit delivery capability of the lending institutions, and possibly, the small size of the experimental areas. The rate of lending is expected to continue to increase somewhat over coming months as programme improvements are made and experimental areas are expanded.

Benefits to borrowers: Borrowers report overwhelmingly (96.4%) that they have benefitted from the RFEP loans. 59% said the loan helped very much. 17% said it helped much and 24% said it helped some.² Detailed information on the impact of

2. "A Sociological Study of the Borrowers Responsiveness Towards the RFEP," page 19, Dr. Nizamuddin Ahmed, Dacca, October 29, 1979.

RFEP credit on farm productivity and income will be developed through RFEP "micro-farm surveys." Special surveys will also be conducted to measure the overall impact of RFEP credit on economic development in the experimental areas. Money alone is no panacea to rural development problems, but very preliminary impressions are that credit may have considerable developmental impact in Bangladesh, with concomitant benefits to borrowers.

Reaching the target group: Equally important and gratifying is that survey data indicates that 72%³ of the RFEP loans have been disbursed to target group individuals. One-third of the borrowers were landless persons. Of the two-thirds who owned land, 54% owned less than one acre and 30% owned less than two acres⁴. This contrasts sharply with regular Bangladesh Government (BDG) credit program performance, where according to a Bangladesh Bank (BDB) survey, only 19% of the borrowers under the 100 Crore Program owned 2.0 acres of land.⁵

Lending experience to date is increasingly confirming a fundamental RFEP hypothesis, i. e., that higher loan interest rates (24-30 percent) are acceptable to rural producers. Loan demand is high even at the higher rates, and as much credit has been disbursed at the higher rates (24, 30 and 36%) as at the lower rates (12, 18%). In some respects, high interest credit has been "oversubscribed". For example, the baseline survey⁶ reveals that 16% of the target group population under this project lives in experimental areas testing 30% interest rates. Yet nearly 23% of total RFEP loans were made at that rate. Lending volume at 12% interest was only 57% of the amount expected, based on total target group population living in these areas. 30% credit is frequently viewed by borrowers as "cheap money" compared to the 100-200% interest they would normally have to pay for credit from informal sources.

Borrowers complain about the 18%, 24% and 30% interest rates, but they seem assuaged by arguments that rates are needed to cover bank costs and to expand service. Typical of borrower response are the following comments excerpted from in-depth interviews conducted by the Consultant's Bangladeshi sociologist.

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3. Source: "Continuous Survey Tabulation," January 1979, Rural Finance Experimental Project document, by Clapp & Mayne & Proggani Consultants Ltd. et al. Dacca.
 4. Nizamuddin Ahmed, page 13.
 5. Source: "BDB Agricultural Credit Survey Data on 628 Borrowers...", page A-4.
 6. *Baseline and Sociological Survey I Report* (2 volumes) Rural Finance Experimental Project, Clapp and Mayne & Proggani Consultants Ltd. Dacca, January 1980.

Joydeypur, Dacca District
Uttara Bank Model (30% area)

Chan Mohan Mondal, rice husker—he said he had no objection to 30% interest. He was very glad to get the loan.

Hem Chandra Mondal, farmer—in his view 30% is all right, other local charges are much more, 8% - 12% a month.

Shirajur Rahman, farmer, said he does not mind 30% interest. He did not get a loan before and was glad to get it.

Mizanur Rahman, a farmer, though 30% interest was high but he did not mind. "The Bank has done well giving us a loan," he said.

Baligaon, Dacca District
Agrani Bank (30% area)

Narayan Das, a Hindu Fisherman, thinks 30% interest on credit is too high but acceptable as the local money lenders charge 10% interest a month.

Radheshyam Das, a Hindu Fisherman, also thinks 30% interest was too high but he was happy to get it as he needed it and also could not get a bank loan.

Complaints about loans usually related much more to untimeliness, insufficient amount, and inability to borrow for the purpose intended, than to interest rates.

Total Credit Demand: Overall credit demand seems high. Rural people in the experimental areas strongly perceive that they have investment opportunities. 79% expressed a desire for a loan.⁷ Of those, the vast majority said they would use the money to invest in crop production, petty business or livestock.⁸ Just over one-half of the families in the target area feel that a loan would be the most important thing for increasing their income. Project experience should help provide more evidence about whether or not investment opportunities exist as perceived.

Total Supply of Credit Under RFEP: Through December 31, 1979, enough

7. *Baseline Survey*, page B-10, Table F-5.

8. *Ibid*, page B-9, Table F-4.

RFEP credit has been delivered to meet a large proportion of the target groups demand. This could be highly significant for equity as well as production. Insufficient credit supply means by definition that demand can't be met; inevitably in a short supply situation, the poorer elements of the rural society will do without.

The total size of the target group in the 69 experimental areas is estimated at 27,826 families⁹ Of these, 5,933 or 21%, had actually received loans as of 12/31/79. The percentage of target group reached is much higher in some experimental areas. Sonali bank has made loans to 50% of the target group in its areas. Disbursement to the target group in the Sonali areas may be reaching the saturation point if we consider that not all target group want or can use loans.

Effect on Overall Rural Finance Markets: The volume of RFEP lending has greatly increased the total amount of credit, and presumably the amount of funds available for investment in the experimental areas. According to the baseline survey, credit was quite limited in the experimental areas prior to the RFEP. In 1978, only 11.4% of the target group and 18.5% of the non-target group received credit from any source. About one-half of those loans were from informal sources. Average loan size in 1978 was about half the \$80 RFEP average. Thus it has been calculated that total credit in the experimental areas on an annual basis is now five to ten times greater than before. The total volume of credit available under the RFEP equals about 5% of total cash income in the experimental areas; the total volume of credit extended to the target group equals about 10% of their total income.

Repayment: Since significant loan repayment has only recently begun, analysis of this subject is preliminary. Repayment performance has been mixed. Overall performance has not been satisfactory but some institutions are demonstrating good recovery performance and a number of experimental areas have reported 100% recovery. Repayment results through December 31, 1980 show 73% of due loans repaid and 27% overdue. Janata, Pubali and Rupali banks have the lowest overdue rates—8%, 9%, and 12% respectively. Thus, a nucleus of good repayment performance exists which could be emulated and replicated.

Chances for loan recovery are enhanced by the fact that RFEP loans are going essentially to individuals who haven't previously received institutional credit and who haven't adopted a "willful defaulter" attitude. Traditional value systems still prevail RFEP borrowers have expressed an overwhelming desire to repay, if perhaps

9. Based on extrapolations from the *Baseline Survey I*.

late in some cases.¹⁰ While borrower wish to repay, actual repayment performance depends on profitable use of the loan and on proper loan program administration. Besides the physical, climatic and economic factors, loan profitability and repayment are affected by timeliness of the loan (especially crop loans), loan size, purpose for which loan was made, loan supervision, realistic repayment schedules, borrower assurance of follow-on loans, early action against defaulters, collateral, rescheduling overdues joint liability and social pressure, savings, effective loan collection plans and techniques etc.

Finding from the management survey¹¹ and from borrower interviews imply that a substantial portion of the overdues may be related to weak program administration rather than to borrower attitudes or poor investment decisions. In general, institutional plans for loan recovery have been less well formulated and executed than for loan disbursement. The following circumstances have been reported by borrowers in high overdue areas: (1) loan recovery has been improperly scheduled, i. e. unrealistically long or short repayment periods; poorly scheduled installment plans, (2) inadequate loan size, (3) loans not obtained for the purpose intended.

RFEP Administration and Management: Special management surveys conducted in experimental areas¹² revealed numerous common operational constraints in the program including: (1) low loan officer productivity—9 loans per month (2) transfer of project field officers (35% transferred) (3) inadequate training of field officers and others (4) field officers were frequently assigned non-project responsibilities (5) lack of portfolio planning—many loan officers did not have clear disbursement plans based on analysis of local needs (crop calendars etc.) (6) job responsibilities and operational steps not well defined or executed (7) systems of holding field officers accountable not well developed or enforced (8) low salary compared to level of responsibility demanded (9) inadequate logistical support for field operations (10) inadequate supervision (11) authority delegated less than anticipated.

Loan Disbursement Procedures and Practices: In most cases, transaction time has been reduced to very acceptable levels. Simple procedures and fast transaction time are necessary for certain loans (crop production etc.) and to reduce administrative costs. Over half of the RFEP borrowers (54%) received their loan within one week of

10. Nizamuddin Ahmed.

11. *Output Level Evaluation: Performance of lending Institutions* RFEP, Razia S. Ahmed, Proggani Consultants Ltd. Sept. 79, Dacca.

12. Razia Ahmad.

application. Two-thirds travelled one mile or less to the bank. But 34% had to make 3 or more visits to the bank and 11% had to wait a month or more for their loan. Further improvements in transaction procedures and their execution can be made.

Financial Viability of Experimental Outlets: Preliminary calculations are showing that several experimental areas are generating accrued revenues sufficient to cover costs, assuming a low 3% debt writeoff. Experimental areas demonstrating the lower interest rates, however, (12% and 18%) are incurring substantial losses.

Assuming a bad debt ratio of 7% (probably more realistic given high natural risk, economic uncertainty, borrower attitude and institutional constraints), all experimental areas have thus far incurred losses.

Volume of business is highly correlated to profitability. Table 1 shows that a 24% interest rate area would just cover costs at a volume of 200 loans (assuming 7% bad debts) and very low operating costs. At 400 loans per year, however, profits would rise nearly ten times, sufficient to significantly increase salary levels as an incentive and reward for high productivity, and still offer a moderate return to the institution (cost of capital). A similar situation is shown for a 30% area. Note that volume of business is not very significant in 12% areas where heavy losses are incurred at all loan volumes. Another way of looking at the importance of loan volume is to note that the profit is higher in a 24% area with 400 loans per year than in a 30% area with 200 loans per year. Therefore, increased volume could be translated into lower interest rates for farmers.

Table 1
PROFITABILITY OF EXPERIMENTAL OUTLETS
 At different loan volumes and interest rates (hypothetical calculations).

	12% area		24% area		30% area	
a. No of borrowers	400	200	400	200	400	200
b. Average loan size	\$ 80	\$ 80	\$ 80	\$ 80	\$ 80	\$ 80
c. Loan volume	\$32,000	\$16,000	\$32,000	\$16,000	\$32,000	\$16,000
d. Income from interest (with no default)	\$ 2,880	\$ 1,440	\$ 5,760	\$ 2,880	\$ 7,200	\$ 3,600
e. Income from interest (with 7% default)	\$ 438	\$ 219	\$ 3,117	\$ 1,558	\$ 4,456	\$ 2,228
f. Operating costs‡	\$ 1,700	\$ 1,300	\$ 1,700	\$ 1,300	\$ 1,700	\$ 1,300
g. Prfit /(less) e-f	(\$ 1,262)	(\$ 1,081)	\$ 1,417	\$ 142	\$ 2,756	\$ 928

Assumes

1. 7% default rate.
2. 9 month average loan duration.

‡ Costs are conservative estimates based on preliminary appraisal. Actual costs may be more. Detailed cost appraisal is on-going.

Savings: Savings performance has been surprisingly good considering the greater attention to credit disbursement. Most borrowers have opened new savings accounts with the banks. About 5,400 accounts amounting to \$56,573 (7% of loan disbursement) have been opened. The potential for increased deposits is many times more than this. According to the baseline survey, 73% of the experimental area population would like to begin saving.

Promising Systems: Among the nine systems being tested, the village bank systems are demonstrating considerable potential. In many ways, village bank models which incorporate a significant amount of local participation are expected to comprise the proto-type for the follow-on project. Sonali Bank's village bank model features a tiny village office; a locally recruited full time bank officer; credit disbursement twice a week on market days; local village credit committees to assist the bank officer with credit planning; a system whereby the bank officer spends three

days a week out of the office promoting investments, HYV use, etc.; and some in-kind disbursement of credit (fertilizer). The Uttara model organizes borrowers into informal groups of 5-10 individuals which have responsibilities for planning and supervising credit use and repayment by group members.

C. Conclusions And Recommendations

In addition to the more obvious findings discussed above, certain conclusions or expectations and recommendations are presented below. The emphasis is on identifying program constraints or questions and formulating appropriate responses.

C. 1. Summary

- (1) Institutional constraints are a major constraint to reaching the rural poor. Increasing loan officer productivity and volume of business are critical for reaching the target group and achieving financial viability for the program,
- (2) appropriate personnel incentives, training and logistical support are essential to increase loan officer productivity,
- (3) participating institutions need a self-evaluation capability,
- (4) repayment is a major issue requiring urgent attention,
- (5) interest rates of 24% and 30% have good potential of producing financial viability,
- (6) a great number of the target group can probably be benefitted through credit but more needs to be known about the availability of investment opportunities and the benefits from credit,
- (7) local people must actively assist the loan programme, thereby increasing the loan officers productivity, reducing costs and increasing programme efficiency,
- (8) total supply of credit must be sufficient in order to reach the rural poor.
- (9) village based outlets are needed to bring timely services to the rural people, and
- (10) there are limits to reaching the rural poor with agricultural credit.

C. 2. Discussion of Conclusions; Recommendations

Institutional Constraints: Project experience has demonstrated the importance of developing the institutional capability of the lending institutions. Progress in the

experimental areas has been constrained by inadequate staffing, motivation, training, supervision and resultant low staff productivity.

Higher staff productivity would greatly facilitate efforts to reach a significant proportion of the rural poor over the next decade. Assuming an average loan officer productivity of 42 loans/month (compared to the present 9 loans/month under the RFEP), roughly 5,000 new employees would have to be hired or assigned to rural credit work and an additional 2,300 rural outlets established (some operating out of existing branches) to serve 634,000 new customers on a regular and repeat basis over the next five years.¹⁴ Training and financing this number of workers and outlets over five years would entail a major institution building effort. Yet even 634,000 new customers represents a relatively small portion of the estimated 10-12 million rural families in Bangladesh.

As discussed in under "Financial Viability" above, loan officer productivity and volume of business correlate directly to whether outlets cover their costs. Participating institutions need to cover costs in order to create incentives to serve the rural poor; to mobilize or conserve capital for lending, for hiring staff and for establishing outlets; and to increase bank efficiency.

As mentioned under "Findings" above, management/administrative constraints have been identified in the day to day administration of the project by the participating institutions.

In some respects, the scope of experimentation has been narrower than planned because participating institutions have not demonstrated some of the planned features of their different systems.

Recommendations:

- (1) Each participating institution should: (a) identify major programme constraints or problems which relate to management/administration of the project, e. g., loan officer productivity, loan volume, financial viability etc., and formulate appropriate solutions.
- (2) Assess training needs and conduct extensive training.

14. These projections come from the *Project Identification Document Rural Finance (388-0037)* Sept. 1979, USAID, Dacca which briefly presents a proposed follow-on project beginning in 1982.

- (3) Place more attention on the special distinguishing features of each model.
- (4) Define the roles/responsibilities of officers, supervisors.

Personnel Incentives: The problem of loan officer productivity relates personnel incentives and accountability. To perform effectively, officers should have sufficient remuneration to make a second job or fraudulent activity unnecessary. The system of rewards and punishments must operate to make it in everyone's self interest to be productive and honest.

At the present time, with very low salaries and unreliable rewards and punishments, the system sometimes actually seems to discourage good performance. Senior managers recognize the problem but seem to feel it is intractable—and tied to the entire problem of government salaries. Good officers, handling large volumes of money, find themselves unable to support their family, in harsh rural environments. They come under strong social/political pressures for "special favor".

The RFEP calls for experimentation with personnel incentives systems, training, logistic support and various levels of supervision to demonstrate the impact on development of rural credit systems. To date, however, little experimentation has been conducted in this regard. *Recommendation:* Experiment boldly with salary augments, commissions, rural "hardship" allowances, logistic allowances etc. combined with punishments for poor or dishonest performance.

Self-Evaluation Capability: Two major evaluations of RFEP progress will have been prepared by the Consultant as of March 31, 1980. The documents present considerable analysis, discussion of problems and urgent action recommendations. Since the participating institutions were not very directly involved in the evaluation exercises, however, they are only partly knowledgeable and convinced of the evaluation findings and recommendations. *Recommendation:* Each of the participating institutions should immediately develop a self-evaluation capability. In coordination with the Consultant, the institution should prioritize important issues, determine what data is needed for analysis, gather the data, analyze it and formulate actionable recommendations.

Repayment: Refer to "Repayment" under Findings. *Recommendation:* Assess the repayment situation. Ascertain why repayment is good in some experimental areas and poor in others. Apply lessons learned.

Interest Rates: It seems feasible to benefit the target group and to generate

institutional revenues which cover costs at interest rates of 24–30%. *Recommendation:* Conduct economic/financial analysis of rural outlets' profitability at different interest rates.

Benefitting the Target Group: More needs to be known about the legitimate demand for rural production credit among the target group. Unless credit institutions can serve a large proportion of the total demand, production objectives and equity objective cannot be achieved. Demand depends mainly on the availability of investment opportunities. Under the RFEP, loan officers have not made loans to many target group applicants, allegedly because the applicants did not have investment opportunities. *Recommendations:* (1) Analyze the benefits generated by RFEP loans. (2) Where loans were not beneficial, analyze the incidence and reasons. (3) For target group individuals who didn't request or receive loans, find out why not and whether they have investment opportunities.

Local Participation: No data has yet been tabulated to demonstrate the benefits of local participation, but RFEP experience gives rise to expectations that local input will prove essential to programme effectiveness. Local organization and training involves a high initial investment of time and energy by the loan officers but experience with Sonali's village credit committees and Uttara's informal borrower groups holds promise for greatly increasing the volume of business that a loan officer can properly manage. Local input can facilitate; (1) planning the crop loan programme/schedule, (2) verifying borrowers occupation and investment potentials, (3) completing forms, (4) organizing loan application and disbursement, (5) loan supervision, (6) information flow (7) creation of a community based demand-pull for credit/savings services etc. *Recommendations:* (1) Increase emphasis on involving local committees or groups in the credit programme. Ascertain what role local people can perform—particularly with respect to increasing loan officer productivity. (2) Analyze Grameen bank experience and apply it to the RFEP.

Credit Supply and Equity: An inherent project assumption in that short credit supply means that some individuals, particularly the relatively poor, will not be able to obtain credit—despite mandates, guidelines etc. RFEP experience shows a correlation between the total supply of credit and incidence in reaching the target group. For example, a relatively small percentage of Sonali Bank loans have gone to the target group (about 60%), but Sonali has saturated its experimental areas with credit (target and non-target group) and has reached a higher percentage of the target group (50%) than any other institution. *Recommendation:* None, except to note the importance of

total credit supply - thus the importance of arguments for capital mobilization through savings and through financially viable operations.

Village Outlets: Village based outlets, such as Sonali's Krishi Shakha seem to have successfully reached the rural people with timely services. Management problems are considerable and need attention and financial viability is yet to be demonstrated. *Recommendation:* Emphasize demonstration and evaluation of village based outlets.

Agricultural Lending: In the experimental areas non-agricultural sources of income have been found quite important. *Recommendation:* (1) Study the demand and economic returns to non-agricultural loans. (2) Try to ascertain to what extent the target group can be benefitted by non-agricultural loans.

Measures Taken in Mobilizing Rural Savings in Nepal*

-Ishwari Raj Panday

Introduction

One of the basic constraints impeding the growth efforts of most of the developing countries has been the scarcity of domestic savings relative to the size of investment required to achieve a fairly satisfactory rate of economic growth. Nepal also has been facing similar constraints in its growth effort. The rise in prices of oil has further accentuated this resource problem. Though foreign aid played an important role in meeting the resource need of the developing countries, it was strongly felt that it was not desirably to increase country's dependence on foreign aid. It was, therefore, imperative for these countries to make an all out drive to explore all the avenues of mobilizing domestic savings. While exploring the new avenues of mobilizing more savings, the relevance of rural savings in a predominantly agricultural economy like that of Nepal is well recognised.

Before starting discussions on the various measures taken by the country to mobilize savings, particularly rural savings, it would be out of context to describe in short the basic features of the Nepalese economy and efforts made to improve it.

Nepal's economy is predominantly rural based. Nearly ninety six percent of the population live in the rural areas and they eke out their existence from agriculture and other farm related activities. Agriculture still accounts for almost two-thirds of the Gross National Products and more than seventy percent of the country's exports consist of farm products. Even after more than two decades of development efforts, the composition of GDP has hardly changed (Table No. 1).

* I extend my sincere thanks to Johan Schultz, Advisor, Nepal Rastra Bank for his valuable comments on the paper. All errors in the paper are mine.

The rural life in Nepal presents a scenario, one of poverty and deprivation. Recognising the reality of dire poverty of the vast millions, the country implemented development plans to lift these millions up from the morass of poverty, but the growth strategies adopted failed to attain the desired goals. The absence of reliable information make comparative study of poverty in Nepal a difficult task. However, recent survey conducted by the Planning Commission of Nepal has revealed that in terms of minimum expenditure, more than forty percent of the rural population is living below the poverty line. Empirical studies made in India to assess the impact of more than two decades of development efforts on the living standards of the people have revealed that more people have been pushed to the poverty line during these periods. Disparities in the level of livings have widened. The benefits of development flowed to the already prosperous, leaving the poor out of its orbit. The percentage of rural population living below the poverty line in Indian in terms of minimum expenditure, increased to seventy percent in 1978/79 from fifty two percent in 1960/61. These hard realities have recently prompted the development thinkers to divert their attention from urban development to rural development. In this process, the rural sector has been drawing greater attention of the growth experts to explore also its potentiality to contribute in the saving process as well.

Development depends on investment. Size of investment is again determined by various factors, one of the important among them being the availability of adequate savings to finance comprehensive development programs. Nepal has, therefore, taken several measures to explore the various possibilities of mobilizing more domestic savings by using both monetary and fiscal instruments. This paper will make an attempt to examine the measures taken so far to mobilise savings in the country, assess the achievements and failures of the measures taken, particularly in mobilizing rural savings, and to explore the further avenues of raising additional savings from the rural sectors, keeping in mind the distinct features of the Nepalese economy.

Measures Taken

Despite our realization that the rural sector is a comparatively poor sector, we have been exploring ways and means of launching a saving mobilization drive in that sector. The predominance of rural based activities, like agriculture, in the economy of Nepal and the knowledge that rural people have been saving something in the past must have stimulated the idea of mobilizing rural savings. Such efforts, however, are constrained by a host of problems. Poverty, presence of other competing

assets, non-monetization, illiteracy and the fragmented nature of the economy have been imposing constraints on our attempts to mobilize rural savings. Despite poverty the rural people have been saving, but mostly in the form of physical assets such as gold and silver. Higher proportion of advances of the commercial banks in the rural sectors against gold and silver substantiates this fact. Therefore, our major concern has been to bring these savers within the fold of the financial institution by giving them due incentive.

Both fiscal as well monetary tools have been used in mobilizing rural savings in Nepal. The fiscal measures included the Compulsory Saving Schemes, Panchayat Development and Land Tax and the Agricultural Income Tax. The monetary measures concentrated on the interest rate policy and the expansion of banking institutions. All the three major fiscal measures designed to mobilize more rural saving have however remained inactive. The interest rate policy and the expansion of financial institution remain at present in operation as major policy tools for mobilizing rural savings in the country.

Other measures included the establishment of a Banking Development Board in 1968. Its chief functions were to give guidelines to the financial institutions on matters of deposit mobilization and lending. Some of the amendments in the Commercial Bank Act was influenced by the recommendations made by the Banking Development Board. Dissemination of information on the country's banking practice and the importance of saving with the banks and benefits of borrowing from the banks were other responsibilities of the Board. A Publicity Sub-committee created under the direction of the Banking Development Board is assigned with responsibilities to mount a publicity drive, particularly in rural areas, by using all available publicity media to promote banking habit among rural people. The media used by the Sub-committee are as follows:

1. Posters and hand-outs.
2. Cinematography: Showing of documentary films highlighting the benefits of savings with the bank and borrowing from the banks with particular stress on small scale lending schemes of the bank and showing of slides in the theatre.
3. Putting up of hoardings, use of stickers and newspaper advertisements, advertisements through radio.
4. Use of folk-singers in disseminating banking information among people.
5. Distribution of Calendars with banking slogans etc.

The interest rate policy continues to be the most significant monetary instrument in mobilizing saving. Even the forced saving measure resorted to by the government such as Compulsory Saving Scheme carried an incentive of interest rate to motivate people to participate in the scheme. But the central question is that at what incentive rates will people agree to save and this provides an interesting ground for an academic discussion.

It is said that the interest rate, to be an effective instrument in mobilizing savings should be able to compete fairly with other alternative assets. In a situation where the values of other physical assets such as gold, land, buildings, goods rise by greater percentages than the rate of interest, the interest rate will be a less attractive incentive for people to save. This means that in order to provide a monetary incentive for savers the nominal rate of interest should always be higher than the expected inflation rate. In other words, the incentive rate should be positive in real terms. Though this incentive rate may sometimes put policy makers in difficulty while structuring the interest rate in line with inflation rate beyond the tolerance limit, this is hardly a disputed dictum. To collect more savings the experts stress that in addition to interest rates the instrument of savings available to the people should also be attractive to the savers.

Impact

One of innovative saving mobilization scheme implemented by the government to mobilize savings from the rural sector was the Compulsory Saving Scheme which mobilized, though forcibly, a substantial amount of savings from rural people. The savings raised under the scheme amounted to about Rs. 140 millions. In some panchayats people contributed more than the percentage specified to them. Bad management of the scheme led to its premature suspension. In the initial period the saving was raised in terms of kind and this created problems of converting the kind in cash and proper keeping of records. The non-payment of interest in time shook the confidence of the people on the scheme. If managed properly, it would have better served the cause of development. Panchayat Development and Land Tax was suspended before it could show its result. The PDLT scheme which was implemented in some panchayats had made important contribution in the development of the area. The Agricultural Income Tax measure, after few years implementation, was withdrawn. Difficulty in administering the measure and its poor collection result forced its discontinuation.

Monetary measure, was, however, remarkably successful in mobilizing more savings. Lack of reliable information limits a meaningful analysis of the performance

of the measures adopted to mobilize savings, particularly in the rural areas. Sector-wise deposit information show heavier or greater concentration of deposits in the urban sector than in the rural sector. Banking figures on deposits in September 1979 show that eighty three percent of the aggregate deposits is concentrated in urban banks and only seventeen percent in the rural banks. (see Table No. 2). Taking into account the smaller size of the urban sector in the aggregate economic activity, this information appears to be distortive. But because most of the landlords reside in the urban areas, we can fairly assume that most of these deposits have accrued from farm activities rather than urban activity. Some farm households may keep their saving in urban bank for security reasons also. Classification of deposits by profession of holders would substantiate the fact. But unfortunately such information is not available. However, the data received from follow up Agricultural Credit Survey provide interesting information. The recent data on farm household's investment on shares of cooperatives and bank deposits provided by the follow-up Agricultural Credit Survey conducted by Nepal Rastra Bank indicate that investment on financial assets by rural households have increased substantially during past 7 years (see Table No. 3). The average investment on financial assets which stood at Re 1 in 1969/70 has increased to Rs 79 in 1976/77.

The interest rate policy and the scheme of institutional expansion have been extensively used in the last five years to mobilize more savings from the people. The upward revision of interest rates in 1975 was one of the most successful measures in mobilizing substantial amounts of savings in the form of bank deposits. The term deposit rate was raised from maximum 10½ to 16 percent and the saving rate from 5 to 8 percent. The commercial loan rate was also raised from minimum 15 to 18 percent. The accretion in term deposits in the banks during these five years has been Rs. 1279.6 million or nearly three fold. That savings are interest-elastic is proved by the fact that the concentration of deposits in two-years time deposits which bears the highest interest rate of 13 percent per annum has been higher than in the others bearing lower rates. The percentage of two years deposits to total time deposits increased to 40.2 percent in 1979 from 36.3 percent in 1977. This percentage in case of one year's deposits declined from 13.1 percent in 1977 to 11 percent in 1979. Very low percentage of holdings of 10 percent government bond by the private sector also demonstrate the low response of the savers to low interest bearing assets.

With the assistance of the Nepal Rastra Bank the banks have vigorously expanded their branch net work. 111 new branches of which 79 are rural branches have been opened since 1975. (Table No. 4). These two measures have greatly helped in mobi-

lizing substantial amounts of saving through the banking system. Sector-wise increments in term deposits however, indicate that rate of increase has been higher in the urban sector than in rural sector.

The achievement made in mobilizing substantial amounts of savings in the form of deposits in the last five years can fairly be attributed to the continued maintenance of positive real interest rates after the upward revision of 1974. Though the recent indicators point to a falling rate of deposit accretion with the banks, the trend has not taken a alarming speed. But the threat of higher inflation rate that is being projected for this fiscal year in the wake of higher inflation in India and world wide is likely to adversely effect the saving mobilization efforts of the country, unless deposits rates are raised.

Higher deposit rates generally require upward adjustment of the lending rates as well. Only exceptions are the possibility of narrowing the differential lending rates and subsidization of deposits rates by the government or the central banks. Usually, the constraints in raising the lending rates hinder the decision to raise the deposit rates. The arguments that the lending rates of the financial institutions need to be kept low to avoid price rise and higher investment cost and to provide relief to the small borrowers are mounted by the borrower's lobby to hinder and upward adjustment of the lending rates by the authorities. The continued supply of formal loan at lower rates has given undue advantage to borrowers which they fight to maintain by all means. Despite the fact that the lower institutional rate of interest, when informal loan rates are markedly higher, may lead to misuse of funds on unproductive investments and increased non-repayment of due loans, and may give undue relief to those who actually do not need it, many developing countries including Nepal has been maintaining differential rates of interest. Lower loaning rates not only create distortions in the financial market but also works against the interest of the savers.

The sponsor of the concept of concessionary rate of interest on advances to the long neglected sector such as agriculture and cottage industries advocate further cheapening of the formal loan rates to enable a weaker section of the population to engage in productive activities. The advocates of the cheap credit concept fail to take into account that cheaper credit alone does not attract entrepreneurs to invest. The viability of the investment projects influences the investment decision, not the cheap credit. Higher levels of deposit mobilization ensures the supply of funds in the financial markets and also helps arrest inflationary pressures. Furthermore experiences in Nepal and other developing countries showed that cheap credit meant for the weaker

section of the people has rather benefitted the rich borrowers,

Bottlenecks

Even though appropriate interest rate policy is pursued, and a good network of financial institution is spread all over the country to effectively mobilizing savings, illiteracy, attractiveness of other competing assets, lower monetization, poverty of the rural people and fragmented nature of the economy constrain the drive to mobilize rural savings. Unnecessary formalities, complex banking procedures, negative attitudes of the employers of the institution impose further constraints on it. Since most of the people in the rural areas are illiterate, some innovations and special arrangements such as use of their impression, identification by photo should be made by the institutions to attract these illiterates to its fold.

Since most of the rural savers are small savers, mobilization of deposits in small amounts involve various problems. The cost factor stands out as a major constraint. The topographic hurdles and under developed transportation system of the country make the cost factor paramount, particularly in the hilly region. Even though the bank makes door to door visit to mobilize small savings, this will be completely unfeasible in case of hills. To make visit from one house to another will take so long time, that the visitors can hardly collect an amount which justify the cost involved in it.

The fragmented nature of the economy impose further limitations on saving mobilization drive in the hills. Lack of transportation facility which chokes the mobility of goods and services kills the incentive to produce more and save. Whatever is produced do not get an outlet to gain the benefit of commerce.

Fastly rising prices of other competing assets like gold and land also limit the scope of augmenting saving in financial assests. Fastly rising prices of metals prticularly of go'd which has been the traditional abode of savings for the rural people towards the institutional efforts to mobilze rural savings. The rise in the prices of gold has been so high, that even a hike in deposits rates can hardly dissuade savers from investing in gold. Unwillingness to innovate stands as another obstacle to saving mobilization drive.

Prospects

The prospects for mobilizing more rural saving, depen on our ability to

innovate new measures, revive some of the measures now lying inactive and strengthen the existing ones with needed readjustment in response to the changing situation. A flexible and realistic interest rate policy could still make an important contribution in augmenting savings in the country and reduce our increasing dependence on foreign aid to finance the development programs.

Among the non-monetary measures, the Panchayat Development and Land Tax might play a catalyst role in collecting resources from the rural areas. Some of the Panchayats had tremendously benefited from the scheme in terms of higher production and income. The Budhabare Panchayat stands as an example of this. Field visits to such Panchayats should be arranged to convince the other Panchayats of the usefulness of the scheme. Since cadastral survey is a prerequisite for successful implementation of the scheme, the survey work should be accorded the highest priority.

Creation of transport facilities in viable sectors in the hills could widen the scope of raising the level of savings. Though providing easier access to institutions in which savings can be deposited. Transportation links should therefore, be created in already productive area to increase production, income and savings. This will also lead to greater monetization of the economy as well.

The high price of gold had made it an attractive assets for investment. The prices of gold and other physical assets have been rising so fastly, so that small savers will have to wait many years to buy even an ounce of gold or buy or construct a building. In this situation, the interest rate policy and further expansion of the branch network of the financial institution in the rural sectors can play a leading role in mobilizing more rural savings.

Monetary Measures:

The maintenance of fairly positive real interest rates on deposits becomes an important issue in this respect. The interest rates should also be made flexible to facilitate quick adjustments required by the changing situations. Some margin of flexibility should be given to the commercial banks themselves to enable them to effectively use the interest rate policy to balance the short-run supply demand of fund in the formal market. The critiques of high deposit rates advance an argument that higher deposit rates offer an easy investment opportunity to savers who could have invested the savings on productive investment. One of the important functions of the bank is to

intermediate between savers and investors. It is wrong to assume that all savers are also investors.

Extension of financial institutions in the rural areas has been helpful in bringing rural savers to its fold in the past few years. But simple extension of branches of the financial institutions in the rural areas would not enhance deposit mobilization efforts unless the thinking of the staffs of the institutions is oriented to the task. The modern building of the banks and the white collar attitude of the staff may repulse the rural people from making contact with this institution. The staff should mix with the local people, should extend help to enable them to transact with the banks, e. g. in matters of filling withdrawal forms and loan forms to attract rural people to its fold.

Since women are good savers, programme should be innovated to mobilize more savings from them. India could provide better example in this respect.

The scheme to make deposit mobilization a part of the package lending programme can also be a measure to mobilize rural savings. We can draw examples in this respect from the Small Farmers Development Project.

Deposit guarantee programme and insurance scheme would be another avenue of providing savers with more incentives. Other programmes successfully practised in other developing countries are mobile units to pick up deposits, issuing saving bonds to individual savers, and saving stamps.

The activities of the Sajha Institution and postal savings scheme need to be strengthened and widened to make them as effective media of saving mobilization.

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Table No. 1
ESTIMATES OF GROSS DOMESTIC PRODUCT OF NEPAL
 (At current and constant prices)

(In million Rupees)

	At Current market prices			At constant (1964-65) Prices		
	Agriculture	Non-agriculture	Total	Agriculture	Non-agriculture	Total
1964-65 (2021-22)	3654 (65)	1948 (35)	5602	3654 (65)	1948 (35)	5602
1965-66 (2022-23)	4794 (69)	2115 (31)	6909	4082 (68)	1914 (32)	5996
1966-67 (2023-24)	4292 (67)	2119 (33)	6411	3914 (66)	1988 (34)	5902
1967-68 (2024-25)	4883 (68)	2290 (32)	7173	3935 (66)	2007 (34)	5942
1968-69 (2025-26)	5357 (67)	2628 (33)	7985	4053 (65)	2154 (35)	6207
1969-70 (2026-27)	5922 (68)	2846 (32)	8768	4191 (66)	2176 (34)	6367
1970-71 (2027-28)	6034 (68)	2904 (32)	8938	4223 (67)	2068 (33)	6291
1971-72 (2028-29)	7106 (69)	3263 (31)	10369	4254 (66)	2233 (34)	6487
1972-73 (2029-30)	6578 (66)	3391 (34)	9969	4218 (65)	2238 (35)	6456
1973-74 (2030-31)	8851 (69)	3957 (31)	12808	4455 (65)	2410 (35)	6865
1974-75 (2031-32)	9949 (67)	4853 (33)	14802	4530 (65)	2435 (35)	6965
1974-75 (2031-32)‡	11550 (70)	5021 (30)	16571	11550 (70)	5021 (30)	16571
1975-76 (2032-33)	11611 (67)	5783 (33)	17394	11615 (67)	5685 (33)	17300

Figures in brackets indicate percentage.

‡New Series estimates.

Table No. 2
**CONCENTRATION OF DEPOSITS AND LOANS OF THE
 COMMERCIAL BANKS**

(Rs. in million)

	Deposits				Total Credits ¹						
	Rural		Urban		Rural		Urban		Total	%	
	Amount	%	Amount	%	Amount	%	Amount	%			
2036 Aswin	513.9	17.0	2505.4	83.0	3019.3 ¹	341.6	11.3	2218.2	73.5	2559.8	84.8

1. Including in Margin & Cashier Security Rs. 95.9 millions.
2. Percentage of Total Deposits.

Table No. 3

**COMPARATIVE DATA ON AVERAGE FINANCIAL INVESTMENT
PER FARM FAMILY**

(Amount in Rs.)

Source	Overall		Hills		Tarai	
	1969/70	1976/77	1969/70	1976/77	1969/70	1976/77
Purchase of shares in sajhas & ADB/N	—	3	—	4	—	3
Compulsory savings deposits	—	4	—	5	—	4
Deposits in sajhas and banks	1	79	1	110	1	67
Loans and advances	28	88	18	28	33	113
Total	29	174	19	147	34	187

**COMPARATIVE DATA ON THE PROPORTION OF FINANCIAL
INVESTMENT PER FARM FAMILY**

(Percent)

Source	Overall		Hills		Tarai	
	1969/70	1976/77	1969/70	1976/77	1969/70	1976/77
Purchase of shares in sajhas & ADB/N	—	1.72	—	2.72	—	1.60
Compulsory saving deposits	—	2.30	—	3.40	—	2.14
Deposits in sajhas and bands	3.45	45.40	5.26	74.83	2.49	35.83
Loans and advances	96.55	50.58	94.74	19.05	97.06	60.43
Total	100.00	100.00	100.00	100.00	100.00	100.00

Table No. 4

NUMBER OF COMMERCIAL BANK BRANCHES OPENED SINCE 1975

	<u>Total</u>	<u>Urban</u>	<u>Rural</u>
Nepal Bank Ltd.	56	14	42
Rastriya Banijya Bank	<u>55</u>	<u>18</u>	<u>37</u>
Total:	111	32	79

	<u>Total</u>	<u>Hills</u>	<u>Tarai</u>
Nepal Bank Ltd.	56	21	35
Rastriya Banijya Bank	<u>55</u>	<u>32</u>	<u>23</u>
Total:	111	53	58

Annex-1

DEPOSIT AND CREDIT OF COMMERCIAL BANKS

(Rs. in Million)

		Total Deposit			Total Credit & Investment			Deposit Credit Ratio		
		Rural	Urban	Total	Rural	Urban	Total	Rural%	Urban%	Total
Mid-Jan.	1977	202.3	1629.4	1831.7	188.9	1224.6	1413.5	93.4	75.2	77.2
Mid-July	1977	248.5	1820.5	1069.0	235.9	1405.4	1641.3	94.9	77.2	79.3
Mid-July	1978	345.1	2071.4	2416.5	297.3	1766.9	2064.2	86.2	85.3	85.4
Mid-July	1979	431.2	2399.7	2830.9	377.5	2225.0	2602.5	87.6	92.7	91.9
Mid-Oct.	1979	513.9	2409.4	2923.3	341.6	2218.2	2559.8	66.5	92.1	87.6

REST AVAILABLE COPY

Annex-2

TIME DEPOSITS OF COMMERCIAL BANKS

(Rs. in million)

	1970 Jan.	1970 July	1971 July	1972 July	1973 July	1974 July	1975 July	1976 July	1977 July	1978 July	1979 July	1979 Jan.	1980 Jan.
Fixed Deposits	137.6	144.0	193.7	295.1	357.4	412.0	517.4	807.7	1060.8	1350.6	1477.7	1376.9	1623.7
Saving Deposits	42.1	52.9	68.6	88.5	121.5	158.1	172.7	198.0	269.2	361.1	454.5	398.0	503.1
Time Deposits	179.7	196.9	262.3	383.6	478.9	563.8	690.1	1005.7	1330.0	1711.7	1932.2	1774.9	2126.8

Note: It Does not include margin deposits.

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Annex-3

GOLD PRICE (Per Ounce) AND INTEREST RATES

(In U. S. Dollars)

<u>Year</u>	<u>Gold Price</u>	<u>Percentage Change</u>	<u>Annual Interest Rate in fixed deposit</u>
1972	\$ 53/-	...	7½
1973	\$ 100/-	89	7½
1974	\$ 160/-	60	9½
1975	\$ 180/-	13	15
1976	\$ 195/-	8	14
1977	\$ 214/-	10	12
1978	\$ 315/-	47	12
1979	\$ 517/-	64	12
1980	\$ 664/-	28	12

CRORES

300

250

200

150

100

50

0

78

75

74

75

76

77

78

79

80
Jan

July

Interest rate in

Year fixed Deposits

Annual Percentage Change

Annual Percentage Change

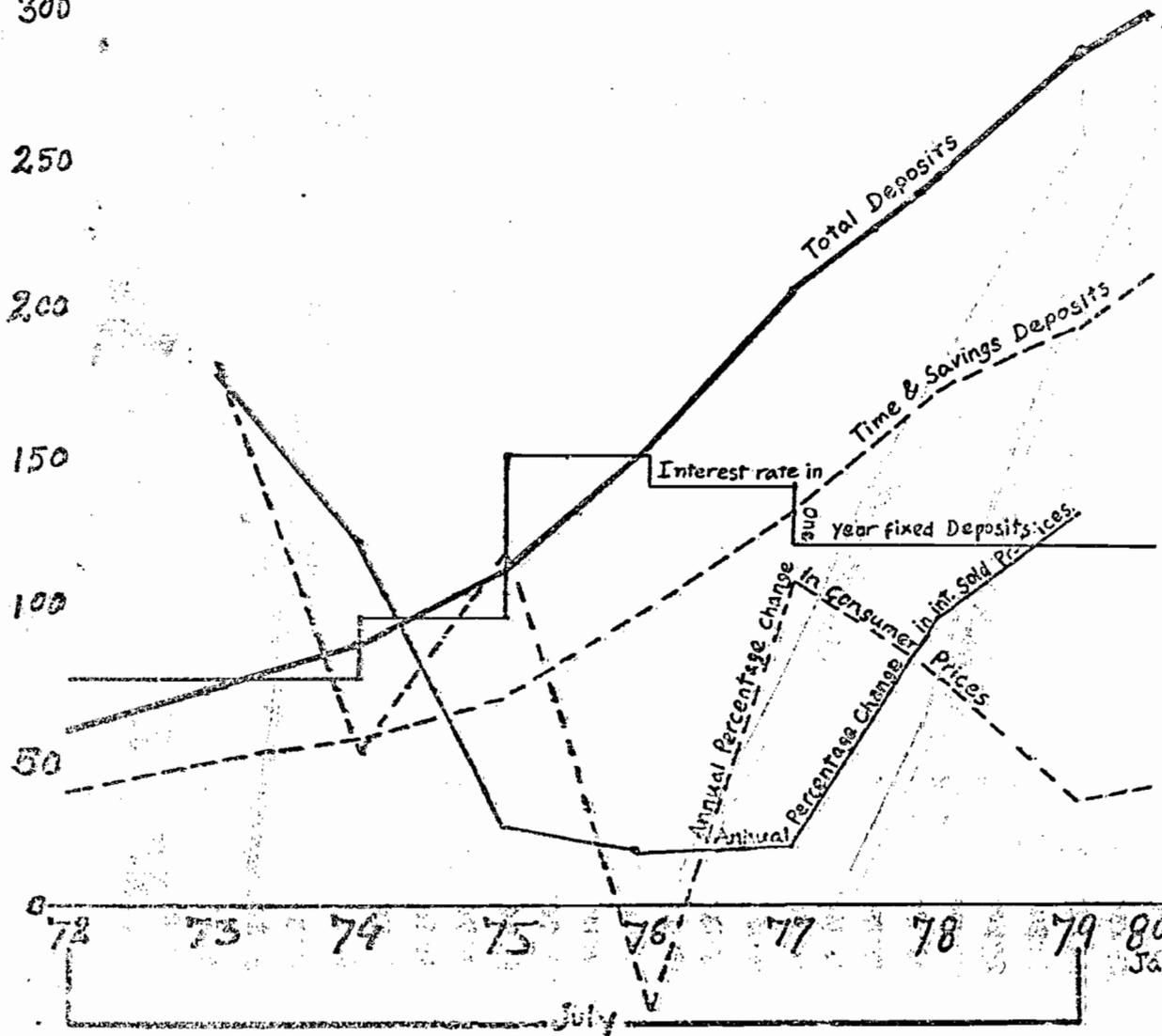
Prices

in Consumer Infr. Sold Pr.

Time & Savings Deposits

Total Deposits

Gold Price %	Consumer Price index & interest rate %
100	20
90	18
80	16
70	14
60	12
50	10
40	8
30	6
20	4
10	2
0	0
	-2
	-4



Rural Finance Experimental Project Village Agent Model

-Quazi Sharafat Hussain

Introduction:

Bangladesh economy being predominantly a rural economy, adequate arrangement of institutional credit for crop raising and increasing its yield and intensify has become imperative. It is observed that for making the financing to the small and the landless farmers meaningful, simultaneously some other rural economic activities are to be introduced a new to the farm family to raise their income level so as to bring the family in an economically viable state. Dispensation of rural credit is, however, a difficult and complex task due to the complexities of the inherited socio-economic frame work and inherent difficulties in the way of reaching the rural poor and making them economically viable. In the past few years sustained efforts have been made in Bangladesh to expand the credit structure and enlarge the flow of credit to the rural sector. It is true that by now sufficient amount of credit has been pumped into the rural sector but with no significant impact thereto. The number of landless farmers are increasing gradually, their living standard is deteriorating and above all the total food production of the country has not marked any significant rise, which facts are quite indicative that we need to check up our existing credit programme and the situation prompted us to look for an efficient and effective rural finance model suitable for the soil and situation of our Country.

Some Basic Data Regarding Bangladesh:

Total land area	: 55,593 square miles.
Agricultural land	: 22 million acres.
Total population	: 78.7 million in 1976. (Male: 40.5 million & Female: 38.2 million).
Rural population	: 93.7% of total population.
Agriculturist	: 85% of total population.

Landless farmers	: About 45% of total farmers
Population growth rate	: 2.6% per annum.
Density of population	: 1,337 per square miles.
Average land holding per farm family	: 1 to 3 acres.
Contribution of rural sectors to GDP	: 54%
Contribution of rural sectors in export earning	: Above 80%
Per capita income for the country	: *Tk. 1,208/- per annum (at 1976-77 market price).
Estimated food shortage for the current year	: 2.20 million ton.

Administrative Unit:

No. of Divisions	: 4
No. of Districts	: 20
No. of Sub-divisions	: 62
No. of Thanas (Police station)**	: 434
No. of Unions	: 4364
No. of Villages	: 68,011

*About 60% of the rural population live below the minimum subsistence level with an average per capita income of less than TK. 600/- per annum.

**The Centres of rural supply and services are located at thana headquarters which form the basic administrative unit of the nation building departments of the Government.

The painful observation that inspite of the intensified and concerted efforts to finance the rural poor their fate remains unchanged prompted us to go for an experimental rural finance under the- "VILLAGE AGENT MODEL".

Nine financial houses are conducting their experimental credit operations under nine differently designed models as mentioned under:-

1. Village Agent Model : RUPALI BANK.
2. Krishi Shakha Model : SONALI BANK.

- | | |
|-----------------------------------------------------|-------------------------------------------|
| 3. Area Development Approach | : JANATA BANK. |
| 4. Small Farmer Service Centre | : AGRANI BANK. |
| 5. Banker as Ombudsman | : PUBALI BANK. |
| 6. Village level group lending | : UTTARA BANK. |
| 7. Budget line of credit or permanent number system | : KRISHI BANK. |
| 8. Co-operative for landless, share croppers, Women | : INTEGRATED RURAL DEVELOPMENT PROGRAMME. |
| 9. -do- | : JATIYA SAMABAYA BANK LTD. |

VILLAGE AGENT MODEL

Village Agent:

The village agent may be considered as the pivot of the model and the success of the model is largely dependent on the performance of the agent and, as such, the model has been named after him. The Village agent has been recruited within the area of project outlet who lives in the village. His qualification is H. Sc. and aptitude is social works. He loves to live in the Village. His monthly salary is Taka 300/- and he is entitled to have a commission of 3% on the amount of loan realised within the due date. A bicycle has been provided to the Agent to move around within the project area.

Because of the limited number of rural branches it becomes difficult for the commercial banks to handle efficiently the rural credit and it becomes hardly possible to establish a direct lender-loanee relationship. Consequently, they have to largely depend on the assistance and co-operation of other intermediaries like Government employees and representatives from elected public bodies like U. P. Chairman and others at the time of disbursing the loan and eventually bank alone has to face the obvious consequences at the time of recovery.

By deputing this Village Agent we intended to refrain ourselves from taking services of those intermediaries which is expected to be done by the Village Agent who is to move around the village and to do the following jobs:

1. He is wanted to work as link-man between the bank-branch and the loanee.
2. To motivate the farmers in the right direction and induce credit discipline in them.
3. To Conduct family survey and identify the target group farmers and rural poors.
4. To motivate the farmers in adopting modern farm technology like use of improved seeds, chemical fertilizers, pesticides, insecticides etc.

5. To assist the farmers in preparation of production plan and filling in the loan applications and extend all sorts of co-operation to the intending loanees to have the loan easily from the bank branch.
6. To follow up the proper use of the credit.
7. To pursue the loanees for repayment as per schedule to have the second loan.
8. He is to point out and assess the prospect of any new or dormant economic potentialities in that area and motivate people for undertaking such activities.
9. He is to live in the village as a social leader and as a financial adviser to the target group farm families. Assessing the availability of man-power and their aptitude he needs to suggest and motivate them for undertaking some off-farm activities simultaneously along with farming for generating supplementary income to make the family gradually self-sustained and an economically viable unit.
10. He is to preach the villagers regarding savings habit and to mobilize rural deposits to make the model ultimately a self-financed one.

We believe that the financial agencies would be able to reach to the rural poor most conveniently and effectively at a lesser cost through this Village Agent concept.

Objective of our Model:

Besides testing the effectiveness of the posting of a Village Agent regarding the points as enumerated above we intend to experiment the under noted factors also:-

1. How effectively and successfully we can reach the rural poor and serve their credit needs.
2. How the intending loanees re-act on higher rate of interest on borrowing to the extent of 36% and how they behave after having the loan.
3. How closely we can supervise the end-use of the credit at minimum cost.
4. The impact in mobilizing rural deposits on offering higher rate of interest on savings.
5. And, finally the recovery position and assessment of the beneficial impact of the credit on the total income of the farm-family.

Selection of Project Areas:

RUPALI BANK has been functioning as "LEAD BANK" in three districts and we have primarily selected three villages as our three outlets at the start and have the intention to increase the spectrum of our coverage with the progress of time and project activities. For selecting the area we have conducted a preliminary area survey to check up and ensure the following:-

- a) Availability of our bank-branch within the village.
- b) Communication and marketing facilities.
- c) Source & availability of other inputs.
- d) Availability of electricity.
- e) Irrigation facilities.
- f) Availability of institutional credit from other source/channels.
- g) Main livelihood and aptitude of the people there and their socio-economic condition in general etc.

The undernoted preliminary information and other basic data have been collected through a general survey before finally selecting the Project Outlets:-

1. Name of the outlets:	Village Alampur District Noakhali	Village Bahirdia District Khulna	Village Kalihati District Tangail
2. Monitoring branch	Rajgonj	Mansha	Kalihati
3. (a) Total population	2060	3883	2049
(b) Total Family	330	700	300
(c) Target group family	250	450	225
4. Distribution of population by profession:-			
(a) Agriculture	69%	79%	68%
(b) Fishery	--	--	5%
(c) Service holders	10%	3%	2%
(d) Landless labourer:-			
i) Agri.	(30%)	(25%)	(20%)
ii) Other	10%	5%	7%
(e) Blacksmith	--	2%	1%
(f) Carpentry	1%	1%	2%
(g) Others (Poultry, Pottery, Weaving, Dairy, Handicrafts making etc.)	10%	10%	15%

5. (a) Total area of the village	1817 acres,	1920 acres	312 acres.
(b) Net area under cultivation	1000 acres	1400 acres	216 acres.
(c) Area under irrigation	Nil	Nil	155 acres.
6. Major crops:	Aus, Aman, Jute, Boro, Wheat, Sugarcane, Potatoes, Rabi crops & other winter vegetables.		
7. Distance of operating branch:	Situated within the village.	-do-	-do-
8. Communication & Transport facilities:	Road	Road River Mail	Road
9. Electricity:	Available	-do-	-do-
10. Availability of credit from other sources:	SACP BKB IRDP Co-operative	SACP BKB IRDP Co-operative	SACP BKB IRDP Co-operative & IUCW (Free of interest)

Project outlets	Rate of interest on advance (per annum)	Rebate on timely repayment (per annum)	Chargeable interest on loan repaid timely (per annum)	Interest on special savings deposit (per annum)
1. Alampur	18%	1%	17%	12%
2. Bahirdia	24%	4%	20%	13%
3. Kalihati	36%	6%	30%	15%

Staffing & Training:

Besides positing one village agent in each of the three outlets, one loan officer has been posted in each of the concerned branches who is supposed to do the paper works pertaining to the Project exclusively. In branch level no other separate staff has been posted for the project works. The branch Managers alongwith his usual official team is required to monitor the program.

In head office one officer has been deputed as project officer to do the jobs exclusively pertaining to the project under the constant and direct supervision and guidance of the incharge, Rural Credit Division.

Before startup the concerned branch managers, officers, village agents and other officials have been trained thoroughly at head office with the co-operation and assistance of the officials of Bangladesh Bank, USAID, the consultant group and the faculty members of bank's own training institute.

Selection Criteria and Eligibility for Borrowing (Target Group Definition):

None but the rural dwellers within the project area who fall under the target group definition is eligible to borrow from project account. The latest and revised definition as communicated to us by Bangladesh Bank under cover of their circular No. ACD (R) 407/79-803 (9) dated 26.6.1979 reads as under:-

1. Rural dwellers of 18 years of age or older (male or female) having permanent residence in an experimental area.
2. Land ownership: (a) Not more than 2.00 acres of land, excluding homestead.
(b) Landless are eligible.
3. Income:- Annual gross cash income from all sources does not exceed Tk. 6,000/= before loan is made.
4. Borrower has not outstanding loan with any lending institution.

Instructions Related to Target Group Definition:

1. Only one person may borrow from each "economically separate household". An "economically separate household" means a household with the members living together and having their meals from a common kitchen.

2. Loan may be Made for:
 - a) Crop production (for food, oil, pulses, vegetable crops, jute, sugarcane, tobacco, cotton, etc.)
 - b) Other agricultural production (for livestock, poultry, duck raising, fish production, milk cow, fattening cattle, goat rearing, etc.)
 - c) Non-agricultural activities (for material and equipment for cottage industry such as basket or mat making, cloth weaving, fishnet making, pottery production, blacksmith, carpentry, tailoring; for food processing such as oil processing (Ghani), paddy husking, fish drying etc.; for transportation including bullock carts or boats etc.

3. Special considerations related to joint families – a joint family, in the social sense, may include more than one economically separate household. In this context, an economically separate household may be identified by one or more of the following criteria:
 - (a) The land and other property of the socially joint family is divided among the members; his division of property may or may not be registered but is well demarcated within the family.
 - (b) The responsibility or work, expenses and income are separate.
 - (c) Cooking is separate.

Security

Learning from the experience of other rural finance programme the fact that security/surity stands on the way and, deprives the rural poor, particularly the share croppers, in getting any institutional credit we have excluded the provision of taking any traditional security or surety from the intending loanee in our Project. To avail loan under the Project he is to execute a simple hypothecation agreement and a demand promissory note and a group guarantee in case of a group loan.

Mode of Disbursement:

- (a) *Family Survey:* To identify the target group farmers and other rural dwellers a family survey is conducted by the village agent to each of the families within the Project outlet excepting few rich families. And, from the data thus collected the target group people are sorted out who are being offered the credit through the agent.

(b) *Credit Plan & Norms of Credit:* In consultation with the intending loanees the village agent prepares the credit plan for the activities to be financed. The credit plan is prepared taking care of the production requirement and in accordance with the set norms for crop financing which is prepared earlier in consistency of the production requirement for that particular area.

(c) *Financing Method:* The loan applications are filled in with the assistance of the village agent who collected the same and submitted to the bank for scrutiny by the loan officer and branch manager who are required to complete almost all the paper formalities before they come down to the branch for having the loan.

On a pre-fixed date the village agent brings a group of people to the branch who are provided with the pre-determined amount of credit within shortest possible time on taking their signature on cash debit vouchers.

The credit is made available usually for the activities detailed in the target group definition.

Repayment: For crop loan the due date for repayment is fixed after a reasonable gap from the time of harvesting. For all the payments, partial or in full, a receipt is issued. For other allied agricultural activities and non-farm activities repayment instalments are fixed in accordance with the nature of the activities.

Special Savings Deposit:

To secure deposits from the rural sectors, enhanced rates of interests have been offered for the rural dwellers in the project areas. At different outlets the rates are different which ranges from 12 to 15% per annum as shown in the table on page-8. Anybody, male or female who lives permanently within the areas; irrespective of the fact whether he belongs to target group or not, is allowed to open this special Savings account and is entitled for having this higher rate of interest. But on any balance in an account over TK 25,000/= the higher rate of interest is not permissible, on which usual rate of interest as per Savings rule will be applied. Unlike general Savings account there is any withdrawal restriction in this special Savings account. All the loanees under the Project are required to open this special Savings account who is expected to buildup a reasonable balance in the account by making time to time deposits in the account.

POSITION OF PROJECT ACTIVITIES (TILL FEBRUARY, 1980)

We have started loan operation in the Project outlets from the month of May, 1979. Latest available position of disbursement, recovery and saving are given below:—

(A) Disbursement

(Amount in Thousand Taka)

Sl. No.	Name of the Outlets	Rate of interest.	No. of loanes accommodated.	purpose-wise disbursement position with percentage			Total
				For crop (TK)	For other agriculture (TK)	For non-agriculture (Tk)	
1.	Alampur	18%	104	33.34 (19.86%)	73.60 (43.84%)	60.95 (36.30%)	167.89
2.	Bahirdia	24%	90	36.88 (46.67%)	36.01 (45.57%)	6.13 (7.76%)	79.02
3.	Kalihati	36%	183	72.27 (43.95%)	51.80 (31.50%)	40.38 (24.55%)	164.45
Total			377	142.49 (34.64%)	161.40 (39.24%)	107.46 (26.12%)	411.36

(B) Recovery:

(Amount in Thousand Taka)

Sl. No.	Name of the Outlets	Amount recovered with interest			Overdue upto 29.2.80	% of recovery to due amount	% of recovery to total disbursement
		Within due date (Tk)	After due date (Tk)	Total (Tk)			
1.	Alampur	67.59	2.23	69.82	31.06	69.21%	41.59%
2.	Bahirdia	37.00	—	37.00	—	100%	46.82%
3.	Kalihati	45.42	10.86	56.28	11.28	83.30%	34.22%
Total		150.01	13.09	163.10	42.34	79.39%	39.65%

(C) Savings:

(Amount in Thousand Taka)

Sl. No.	Name of the Outlets	Rate of interest.	From Target group people		From Non-target group people		Total	
			No. of a/cs.	Amount	No. of a/cs.	Amount	No. of a/cs.	Amount
1.	Alampur	12%	106	1.57	9	2.98	115	4.55
2.	Bahirdia	13%	82	3.06	14	44.68	96	47.74
3.	Kalihati	15%	154	20.04	20	18.93	174	38.97
Total			342	24.67	43	66.59	385	91.26

Study & Analysis of Results:

The disbursement of loan in the project areas is continuing and at this stage it is difficult to conduct any proper study and from the analysis of upto date results, it is not possible to make any sound and definite conclusion. Still, we have observed that the high rate of interest is not an impediment for disbursement of loan to the target group people to whom any institutional credit is beyond the reach, otherwise, they had to borrow from money lenders at fantastically higher rate of interest to the tune of 10 to 15% per month. But, simply disbursement position or even both disbursement and recovery position together also cannot tell about the success of a credit program unless we can assess the incremental benefit they have derived out of the loan amount and whether they have been able to repay the debt out of his surplus income or he has done so by disposing of his available assets. Such survey and evaluation has yet to be made and would be made after the terminal date of the project.

We have not yet worked out any benefit-cost ratio but through a rough estimate it reveals that if we can lend out an amount through an outlet to the tune of Tk. 5 lacs or above and can realize at least 50% of it, our capital involved will be saved on receiving ($\frac{1}{3}$ rd + $\frac{1}{3}$ rd) grant from the Project fund.

Regarding collection of Savings deposit our observation is that the result is most unsatisfactory. As there is no bar for the non-target group people to open such an account we do not understand reason of not getting good deposit under the scheme. There is no legal bar of withdrawal of money from normal savings a/c or fixed deposit a/c and open new account with that money, although that is undesirable and

we try to prevent it. The only reason of not getting good deposit in this account may be inadequate circulation of the savings scheme in the Project area.

Impediments:

Few impediments and the inconveniences which are being faced by us in implementing the model is enumerated hereunder:-

- 1) The target group definition after revision also has not been made quite clear and complete. There is sufficient scope to improve it further as mentioned below under the head suggestion.
2. Multi-agency financing within Project areas at lower or nil rate of interest.
3. Non-availability or un-timely availability of other inputs like improved seed, fertilizer, pesticide etc. cause great hindrance.
4. Want of storage and marketing facilities deprive the farmers to get the peak price of the produce.
5. Partial financing and financing without giving any consideration to his total credit need, including consumption requirement, provides scope for diversion and makes the loanee defaulter inspite of his sincere desire to repay.
6. In absence of a assured market for the produce the loanees become hesitant to use the high-cost modern inputs.
7. Frequent drought and natural calamities put the farmers in great disaster in want of crop Insurance policy.
8. In the face of the risk of crop failure the share cropper alone has to shoulder the risk and responsibilities of repayment of the loan, whereas, the absentee landlord get 50% of the produce under any circumstances and thus he harvests the benefit of increased production without any risk or responsibilities, which situation makes the share-cropper disinterested to use modern high cost inputs.

Recommendation:

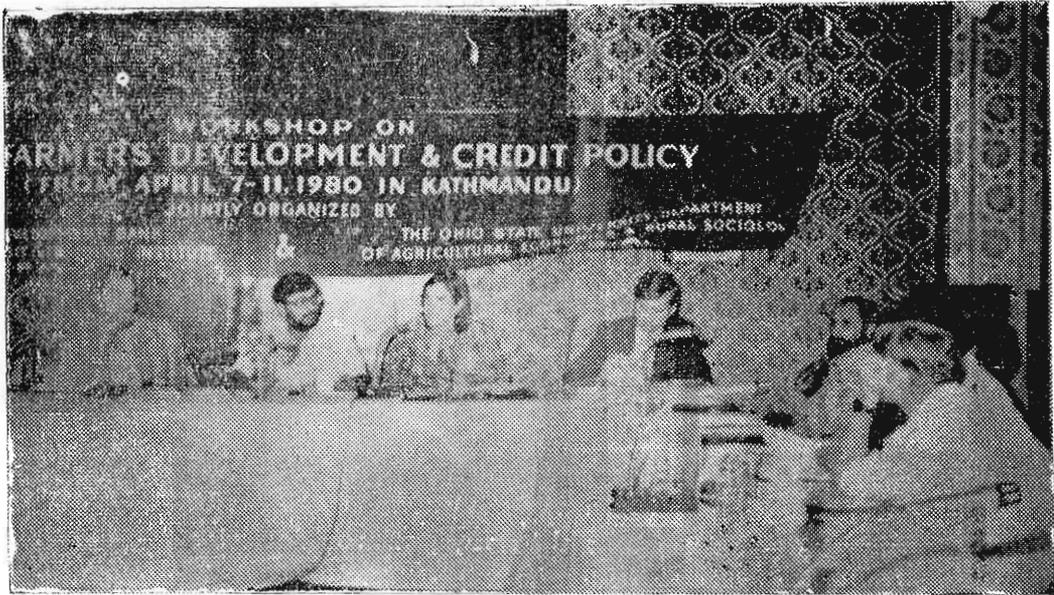
We are furnishing here under, a few recommendations for improvement of the financing model:-

1. Target group definition:

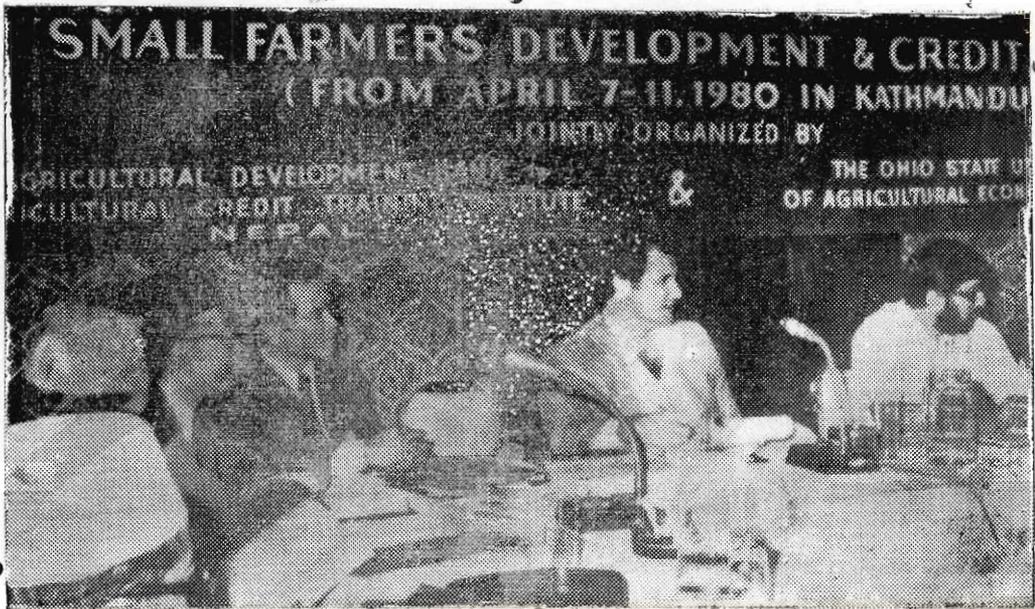
- (a) The sentence "annual gross cash income of Tk. 6,000/= " may be changed as "annual net cash income of Tk. 6,000/= ".

- (b) For the cause of uniformity and with a view to maintain standard measure to sort out people of similar financial position some alteration in the definition is required while assessing cash income of the producers of cereals, who hardly get any scope to sell out the produce which they require for their own family consumption, and the producers of cash crops or people involved in other economic activities pertaining to cash income.
 - (c) For the share-croppers a maximum ceiling of land under their possession and cultivation need to be spell out in the definition which should be double than that of owner farmer.
 - (d) In the sentence "Borrower has no outstanding loan", one more word need to be added to read the sentence as "borrower has no overdue *outstanding* loans."
 - (e) Instead of imposing such an embargo against borrowing of more than one person from the same economically separate house-hold, a maximum ceiling in terms of amount for such a family may be fixed up. By doing so the scope and opportunities of introducing new economic activities to the family and to put the idle man-power of family on job for generation of income from new sources will remain open.
2. Through negotiation amongst different financial agencies and by making certain arrangement with Government, a system may be introduced that within these experimental areas no other financial house will give credit for similar activities.
 3. For overcoming the difficulty of non-availability of other inputs of good qualities, the banks may consider the question of maintaining the store for those inputs by themselves to supply the same to the farmer in kind. This arrangement may be considered for the experimental area only for having correct data out of the experiment.
 4. In the long run bank may consider for providing storage and marketing facilities to the producers and to provide them trade credit against the commodities produced.
 5. While setting financing scale and norms we may do so with the total concept by taking into account the total annual income and expenditure of the family and the short-fall there to. Credit should also be made available for meeting their consumption requirements too under deferred payment system to provide them opportunities to repay the debt subsequently out of their surplus income.

6. The result would have been much better if the farmers could be provided with an assured market with pre-determined value of the produces.
7. Efforts should be intensified for motivating all concerned to introduce crop-Insurance scheme at the earliest.
8. Land reform and certain amendments in the tenancy agreement have become most essential for determining the extent of right of the share-croppers to the land and to re-fix through legislation, if possible, the sharing ratio of the produce between the owner and the share-cropper from $\frac{1}{2}:\frac{1}{2}$ to $\frac{1}{3}:\frac{2}{3}$.
9. The provision of group financing as incorporated in the Project design should be encouraged and intensified.
10. Variable interest rate may be considered for different economic activities in the rural area. For crop loan the rate of interest may be kept lower than that in other non-farm activities.



Mrs. Barbara Harriss (third from left) answering questions on her paper while on discussion.



Dr. Clifton G. Barton (Second from right) participating in the discussion on his paper

Production and Circulation of Cereals in a Dryland Tract of Coimbatore District, S. India

-Barbara Harriss

"Infinitely diverse combinations of elements of this or that type of capitalist evolution are possible" (Lenin)

This note has a restricted purpose- to examine linkages and interrelationships between the production and circulation of commodities and the circulation of money. we shall consider only the subset of commodities studied so far: Paddy-rice, cholam (sorghum vulgare) cumbu (pennesetum typhoideum) and ragi. These constitute the cereals economy of a dryland area with annual rainfall measuring between 540 and 730 mm in Avanashi and Palladam Taluks, a region of some 2,500 sq.km. in Coimbatore district. This land area is about 70 per cent of the size of that covered in an earlier project investigating the political economy of commerce in rice in 7 taluks of North Arcot District (where 200 traders were interviewed). As a benchmark for this note we shall summarise conclusions on the interrelationships between the two spheres of North Arcot's agricultural economy.

1. Production and Circulation in North Arcot: A Benchmark

It was shown that differentiation was occurring in the sphere of production but that the emergence of agricultural capitalism was constrained above all by antediluvian forms of capitalism such as merchants' and finance capital. These worked to preserve the small peasantry by moneylending at relatively low interest rates and by not discriminating against them in prices offered for produce (B. Harriss 1977, J. Harriss 1979 a and b). Why. ?

A search of the mercantile sub-sector involved in the food economy revealed a large majority of fairly small firms. In so far as they carried out transport and proces-

sing, activities both necessary and productive, in so far as they employed wage labour separated from the means of production and reinvested accumulated financial resources according to the criterion of relative profitability, they had characteristics of capitalist relations. Comparing firm-families with farm-families also revealed the relative size and wealth of the former. However, debt ties between wage labourer and owner, a markedly in perfect wage market (often permitting the wage labourer to save) and the existence of relatively large, landholdings, despite agriculture's low profitability identified this as an imperfectly developed merchant capitalist sector.

We showed that the large numbers of traders involved in exchange resulted from the particular combination of state legislative controls operating in the region (including tax laws), the interests of industrial capital in the inputs business, demographic expansion and the splitting of managerially unwieldy joint firms. Large numbers of relatively new entrants were attracted from amongst wage workers in trading firms and from the rich peasantry, necessitating competition in the lending of money for production which entailed the indirect control of production of, and the direct control of supply of cereals. High relative profits were possible from manipulating the complicated community market once supply was guaranteed. The system fed on commodity production but in so far as it ensured the reproduction of the small peasantry, it simultaneously constrained the transformation of relations of production and thus the ultimate expansion of commodity production. production being constrained relative to demand; relatively high prices in the retail sector ensured the high profits that fuelled the whole system (B. Harriss 1979a)

This combination of relationships in production and circulation and the combinations of types of state intervention were thought at the time to be quite highly regionally specific. We are now able to begin setting about the illustration of Lenin's conclusion quoted above, with respect to a surprisingly different set of relationships in a region 150 km to the south west of North Arcot District in Tamil Nadu.

2. Some Contrasts with Coimbatore District

In one respect the two regions are similar. They both have an incidence of tenancy about half that for the state as a whole: 95 percent of holdings are officially "owner-cultivated" North Arcot's average holding size is 1.25 ha while that for coimbatore District as a whole is over twice as large: 2.8 ha. Coimbatore District has a much more highly diversified cropping system.

Whereas North Arcot's was dominated by rice (52 percent of production) and two cash crops: groundnut and sugar cane (39 percent) and coarse grains amounted to only 8 percent and pulses 1; cereals are less important in the land use of Coimbatore District. Rice covers only 13 percent of cultivated area, but coarse grains amount to 33 percent (cholam 22, cumbu 6 and ragi 5 percent), pulses take up another 13 percent and a total of 46 crops are recorded, amongst which cotton (10 percent) and groundnut (15 percent) also figure prominently (GOI 1976; B. Harriss 1979 b).* Coimbatore District has a longer history of commodity production and commercialised agriculture than has North Arcot (Baker, 1979). According to data for the mid 70s the District is in apparent deficit for cereals, total production of which averages 414,230 tonnes – enough for only 94 kgs per person per year. and whereas the 7 taluks of E. North Arcot provided a living for over 2,000 licenced paddy and rice traders and millers, in the two taluks covering an area 70 percent the size of E. North there are only 110 licenced paddy and rice traders and 30 licenced millet traders. The district is also the most highly urbanised in the State (36 percent compared with North Arcot's 19 percent (Kurien and James, 1979) with Coimbatore city dominating the urban population.

3. Cereals Production in a Dry Tract and its Lack of Dynamics

Whereas we could identify expanding forces and changing relations in North Arcot's cereals economy the same cannot be said with certainty for the very dry Avanashi and Palladam Taluks. What we can say needs to be substantiated by a study of agricultural production. Firstly, there is no available and widely replicable high yielding technology for dryland foodgrains. Secondly, there is a well-known crisis in the supply of well water for irrigation. The water table is moving down in irregular manner but some open wells in our region are running dry with mineshafts 180 feet deep (see Sivanappan and Aiyasamy 1978 for scientific data). Thirdly, large tracts of land have been removed from cultivation, particularly on the largest farms, are not used for fodder or (visibly) for grazing but revert to waste. This process may be as irreversible as is water mining for, within a few years, the deterioration of the land prohibits costly reclamation. Only the provision of water could revalue and alter situation. In such regions land and rental values have collapsed. No purchasers or renters come forward.

The expansion of industrialisation not merely in Coimbatore itself, or in

* realise that production and area are not comparable but have no other figures to hand.

surrounding satellites such as Tirupur (famous for a fast expanding hosiery industry) but to small settlements such as Avanashi, Palladam, Annur, Sular, and Somanur (where there are concentrations of ginning factories and spinning mills and small engineering works) and out further into villages barely any of which do not resound to the noise of either hand or power looms, has mopped up surplus rural labour. Wages in agriculture are in consequence of this short supply very high.

Since the lifting of foodgrains trading restrictions throughout the country (1977) under which this region's deficit was intensified and cereals prices were higher than under "equilibrium" conditions of "free" trade, and with the relatively good precipitation in recent years guaranteeing otherwise highly risky production of rainfed cereals, foodgrains prices have declined. Low rice prices have effected a substitution even among the agricultural labour force of rice for coarse grains. The coarse grains commodity markets are thus changing in nature and developing as more cereals are traded for quality grain seed, and as a raw material for the industrial production of cattle feedstuffs, and less for food.

Though we have not yet begun work on "cash" or industry crops the following problems have emerged as of likely significance: the dependence of HYV technology on assured irrigation, and its relatively high cash intensity (cash crops *need* cash as well as generate it). A large number of crops enter this category of "cash" crops: cotton, groundnut and tobacco (all to be studied) turmeric, chillies, onions, flower mulberries and grapes. They seem to suffer from "hog cycles" secular cyclical price fluctuations of varying severity and length, requiring flexibility in land use decisions if agricultural profits are to be maximised. Production is labour intensive. Labour costs are high.

Hence the expansion of agricultural capitalism (assumed at present and in course of being separately researched) seems to be being constrained by the key relationship between wages and prices and by the availability of money or inputs on credit and of improved production techniques appropriate to high risk production environment. * In turn the key relationship depends on linkages of the labour market to the industrial economy,

* We might hypothesise that it is wage/price relationships between food and industrial crops that determines land use choices more than does water or cash/credit availability.

4. Commerce in Cereals

That the dry region has per unit area, one tenth of the number of licenced traders in North Arcot engaged in commerce in cereals does not mean exactly what it seems. In Avanashi and Palladam Taluks, in 11 periodic markets visited there are on average 33 mobile rice traders and 12 traders in coarse grains. Assuming an overlap of one third in market itineraries we might then expect 66 more rice traders and 24 millet traders in the set of 33 weekly markets in our region. These traders are unlicenced are present. The numbers of millet traders are further inflated by direct unlicenced sales by producers, shandies and in vil'ages. But the contrast in structure with North Arcot is clear, as is the dry region's polarisation in trade, the large scale pole of which is the only one monitored by the state.

4.1. The Rice Trade: Motor ways, Trunk Roads and Pathways

In terms of the numbers of intermediaries, the rice trade polarises into monopoly inter state trade ("motorways") and local redistributive trade ("pathways"). Local inter-regional trade involves relatively few people.

4.1.1. Monopoly Trade

This has remarkably little to do with the local agrarian economy. Very large profits result from high volume turn overs, in firms bulking their supply from anywhere in a swathe from Thanjavur District to southern A.P., stocking, milling and finally selling rice to urban wholesalers or commission agents in Kerala. The large firms of this type mill about 10,000 tonnes of yaddy apiece eo year— enough to feed 31,000 people for 12 months at 2,000 calories a day. If this is not monopoly trade then I don't know what is.

Their present locations are athwart trade routes that increase in distance and size with the consolidation of long distance trade consequent upon the lifting of movement restrictions. The reasons for the location of such industrial plant, often decided in the fifties, relate to the "lack of such entrepreneurs in the rice bowl of Thanjavur" where most of the paddy is produced. This is probably but not necessarily a further function of the fact that the main harvests in that region coincide with cloud. Paddy has to be removed elsewhere for drying, and Coimbatore District has abundant sunshine. Rice mills with large drying floors are appropriately located. Rice milling is quite highly labour intensive and in the fifties to mid sixties when these large mills were set up there

was, along with abundant sunshine, abundant cheap labour. This situation has now changed, as in agriculture itself.

The wage labour force in such rice mills differs in its material conditions from that existing still in North Arcot. In Avanashi and Palladām Taluks wages are much higher, there is very little debt-tying or tied moneylending between worker and owner, and wages and annual benefits are entirely paid in cash. Piece rate labour has been organised into unions by the "Right" communists (CPI), is paid in cash not kind, wages which are standardised, with benefits that include leave and compensation for laying off. since agricultural wages have for over a decade or so been characterised by cash payment, circulation of cereals is almost entirely mediated by market exchange. Organisers of rice mill workers have improved the capitalist structure of such firms as well as increased wages to near parity with similar levels of skill in manufacturing industry.

Hence in situations of the early and mid seventies when supplies of raw material were not easily available owing to movement restrictions and monopoly intervention in trading by the state. such firms had the option greatly to reduce volume, stop milling altogether, or to maintain volume and mill on contract to the State Trading institutions, whose milling fee had to cover wages but which certainly did not guarantee the profit levels of "free" trade.

On the resumption of free trade, in order to maximise economics of scale in milling and transport, firms were forced to expand volumes quickly. For this financial resources, contacts, information and milling skills were required. The retracted firm operating passively as a wing of state mercantile institution had to regain independence. Hence trading partnerships were created among intermediaries with different combinations of skills and assets. The largest traders also expanded by leasing in mills from those whose resources had been shifted during the time of restrictions out of mercantile into industrial and financial activities. The largest rice milling business encountered comprised one owner managing 4 mills each processing 200 bags of paddy a day for 300 days of the year: 12,000 tonnes of rice a year.

Monopoly trade double-boils the paddy thereby producing a rice which can be stored for long periods and which is preferred in Kerala. It is not locally palatable. Such trade is therefore sealed off from local distribution.

4. 1. 2. Inter-regional Oligopoly Trade

The rise of industrial townships appears to have changed demand for cereals in response to increases in income and in requirements for relatively quickly prepared food in those urban and rural households where all adults are wageworkers. Demand for rice has increased and that for millet has declined. This has vitalised in interregional trade of some complexity. Both paddy and rice flowing simultaneously in opposite directions according to regional varietal preferences, regional trade flows reversing themselves according to the season. New middle sized mills are being constructed generally in the regions of production.

Wholesale trade has also expanded greatly, led to a restructuring of trading credit under pressure of competition (described later) and to some bankruptcies. From wholesale mundies rice is retailed to urban and rural consumers via general retail stores on the one hand and mobile weekly market stalls on the other. Both types of retail outlet report a rise in the number of competitors and in some cases of volumes handled. Both urban and rural consumers increase their purchases of rice at harvest time when prices are at their lowest, and store as much as they can in order to reduce their long term average purchase costs. Rural consumers comprise agricultural labour, non agricultural labour, both paid entirely in cash, and agricultural producers of industrial or cash crops who have stopped producing subsistence crops.

4. 1. 3. Petty Redistributive Trade

Weekly market trade in rice has greatly increased since the lifting of movement restrictions. It is only those traders who were hitherto trading sufficient quantities to generate financial surplus over and above firm-family subsistence requirements who have, however, expanded turnover.

For the rest we witness an expansion in petty subsistence trade carried on by many people unfit by age or infirmity (or inclination ?) for the agricultural labour market. we also witness the entrance of a new form of disguised wage labour: mills "selling" rice to petty peddlars at Rs. 2 per bag above going market rates on 4-7 day credit. Mobile trading families have split firms in order to expand trade of this sort. Provided millers have sold rice at artificially high prices it is not in their interests to restrict the number of retailers to whom they "sell". Increased competition in retailing as in wholesaling, has furthermore led to the introduction of retail sales on credit, generally weekly credit, at periodic markets. Further competition would lead to the

development of an asymmetrical rotation of working capital that would expose such traders (who have very little working capital of their own) to high risks of "bankruptcy", exacerbated by high default rates on credit owed by rural consumers.

4. 2. The Millets Trade: Trade in Decline: Trunk Roads, Pathways and Pastures New

Whether or not relative price relationships between substitute cereals have actually reduced production of millets is not known for certain. what is known is that marketed surplus of such cereals for food has been reduced and reoriented, and that cereal of good quality is now satisfying the demands of large industrial companies for grain to be manufactured into cattle and poultry feed mixtures traded throughout India.

4. 2. 1: Oligopoly Trade

As with paddy and rice, long distance inter-regional trade has existed in the hands of urban mercantile oligopolists. The interventions of the state are again important in charting their histories. Their profits were greatest at the time of state imposed movement restrictions on rice. The state created local scarcities, hence the prices of inferior substitutes could rise. The State also created large market imperfections in the controlled commodity (under partial monopoly conditions allowing private trade some share of the market) hence similar imperfections appeared in the markets of uncontrolled substitutes where prices could rise to 60-70 per cent of those of rice before triggering any switch in demand. After movement restrictions were lifted, this trade collapsed with the fall in rice prices and the greater equilibration of price surfaces.*

Traders in Tirupur responded quickly by diversification: one invested in a banian (vest) knitting factory and a banian cutting and stitching factory; one turned to cotton where his turnover is now Rs. 4 m. a year; one to rice and one to tobacco and onions, the latter which are exported to Sri Lanka.

There is still sufficient interregional trade in millets to support specialist wholesale trade in Erode and Coimbatore (which is to be studied later) which supplies the separate markets for food, seed and feed.

* Actually these should be regarded as hypotheses which weekly price data for the whole State for all the commodities concerned, from 1976-1980 now collected, should help us test.

Urban trade almost certainly controls rural millets prices preharvest while the reverse may be true after harvest. Rural millet wholesalers admit selling to and buying from the same Coimbatore wholesaler after and before harvest. In the latter case there is no bargaining and Coimbatore's wholesale prices in the preharvest period form the base for the whole region. These wholesalers are known to have large stores and to control regional storage. A price analysis showing greater price fluctuations in rural areas than in Coimbatore would help to corroborate this finding of likely regional monopoly control.

Curiously in urban and rural areas around Palladam, a small number of commission agents have recently set up firms to act as intermediaries between village commission agents and wholesalers in Coimbatore, Erode and Kangeyam. Though large profits are being made, on businesses with very little working capital this has apparently not happened elsewhere.

4. 2. 2. Petty Trade

Smaller scale trading continues in villages and periodic markets. It is highly varied in structure and behaviour. The cattle feed is not sophisticated, consisting of local 60-day green cholam, local weeds, local dry cholam stalks and long distance imported cholam stalks according to the season and the intensity of drought. Grain appears to be traded as follows: the farmers with largest surpluses (50-100 bags) either sell direct to wholesalers, thereby bypassing periodic markets completely, or sell to wholesalers through village brokers, or take samples to the largest periodic markets and negotiate there with wholesalers or with shandy traders. All such transactions may be on credit and at a price unrelated to those of local markets. Small farmers in need of immediate cash sale in periodic markets and are discriminated against in terms of price. At such a shandy a farmer may retail millet himself, or sell to a shandy trader to retail it, or resells to a retailer or an urban retailer or a wholesaler according to the prices prevailing. The smallest shandies of all are not sites of millet sales by farmers, only of retail sales by mobile traders. Such shandy traders are usually petty in scale of operation. Their relatives are in agricultural and industrial wage labour. One, a committed "Left" Communist (CPI(M)) explained: "I'm not able to suck the blood out of farmers and my interests are completely with the workers". However the localised nature of price formation in periodic markets certainly enabled the opportunity of windfall profits occasionally to be exploited.

At the base of the pyramid of petty trade squate a large number of the destitute:

men and women with quarter and half baskets and bags of grain, sometimes operating entirely on credit from a shandy trader, and netting far less than the agricultural wage rate—a false opportunity cost, because such labour is handicapped—out of anything but petty trading by age or sickness.

5. Interlinkage of Commodity Markets

Four issues are worth mentioning here. Firstly, within the cereals sector itself we have seen that the relationship between rice and coarse grains retail prices has been important in changing the structure of trade (and possibly production). Secondly, we have hypothesised that wage/price relationships between food and “cash” crops may be the key decision variable in land use choices.

Thirdly, we should note the response by trading firms to a collapse in the retail price for coarse grains*, which has been to diversify. Rural millets traders have invested in supplementary agricultural enterprises such as buffalo, goats and poultry, bullock carts for hiring out, of silk caterpillar raising; urban millets traders have invested in industrial plant to manufacture underwear; cotton trading: rice and tobacco. These changes consolidate firms by reducing the risks involved in trading in unstable markets. There are only a few cases of diversification by linking back into inputs trading and then only where the firm had already diversified into cash crops: e.g. flour mill to millets to tobacco to pesticides (and ultimately to saw mill).

Fourthly, we expected to find the emergence, in a region, of high risk agricultural production, of big families with control over land, labour, money and commodity “markets” as described by Washbrook for instance in his historical scenario of wet/dry region contrasts (1973). Only a few such family combines have been encountered so far (possibly because their activities are centred around the control of production and circulation of high value industrial/ “cash” crops). One family combine comprises a Panchayat Vice President, a Tank Water Controller, a Manager of a milk co-operative, 150 acres of land, local trade in millet and cotton, long distance trade in silk cocoons, chulam and vegetables, a yarn and power looms workshop, oil rotary, a ginning factory, retail shop, poultry farm, a pesticides shop and large scale money lending. Another combine had two owned rice mills, two leased-in mills, a general store, a

* We shall analyse changes in the distributive margin to see the extent to which low retail prices were passed back to producer wholesale prices and the extent to which trading firms were forced to observe a squeeze in their distributive margins and a reduction in profitability relative to trade in other commodities.

cinema theatre, banian manufacturing company, grocery shop large warehouse for hiring out, and active political interests. A third involves two rice mills, a factory for knitting hosier cloth, another for stitching cloth, and another for bleaching and dyeing cloth, an industrial finance company and a textile mill in course of construction. Despite these examples it is possible that we do not encounter washbrook's "Big Men" because they have gravitated out of commerce altogether, migrated, and now manage wholly industrial combines.

6. Interlinkages of Commodity and Money Markets

Money needed to buy and sell; or to buy, process and sell; varies greatly according to storage periods and the length of time required for remittance of cash. Storage is obviously profitable enough to enable the few traders who acknowledge inter-seasonal storage to borrow money privately at 18-24 percent and still make profits. In theory if remittances on purchases and sales are equally lagged, little working capital is necessary for trade. In fact both commission agents and wholesalers and some retailers are increasingly caught in a symmetrical credit rotations where interest is not charged. The asymmetrical rotations arise possibly because of differences in exchange relations of purchase and those of sale. In such cases the ratio of working capital to total assets rises, and trade is riskier because of default on credit sales.

Lastly we have encountered more cases than in North Arcot District where farmers leave their cash returns from grain sales (millets) with traders for up to a year. Such traders profit from the trust of farmers by speculating with what may total up to quite substantial banking deposits.

7. Interlinkage of Commerce and Production

In North Arcot we examined (i) price formation and its relation to cost (which is for the future in this case, though the data is collected) (ii) moneylending between farmers and traders and (iii) the direct agricultural interests of traders.

7.1. Moneylending to Farmers by Cereals Traders

The provision of consumption credit by urban and rural retailers is increasing, and of unusual interest is a tendency towards credit sales by petty traders at weekly markets. For the small and marginal farmer such consumption credit, free of interest,

may be indistinguishable from working capital, helping to maintain and reproduce his labour.

The mechanism observed in North Arcot: the close linkage between money lending by traders for kind repayment is almost totally absent. It is only those direct "farmgate" transactions between larger farmers and urban wholesalers that benefit from "advances" sometimes mediated through village brokers. Such moneylending is petty in scale (though this conclusion may be modified when we study the large city wholesalers) and only carried out within a few weeks of harvest when the risk attached to the outcome has been minimised. Repayment can be in cash at 18-24 percent interest or in kind at post harvest prices minus 5-7 percent. There are no production loans for cereals given by private trade in the manner of North Arcot. Why ?

Firstly, with the absence of a widely replicable, cash intensive, high yielding production technology, less production credit is needed. This may be self-reinforcing. Because less cash is available, innovation in production technology is retarded regardless of whether the technology exists on research stations or not. However, little may be available because of high risks attached to cereals production in this extremely dry region. High risks might be matched by high interest rates were it not for the wage-price relationships and the low relative price for cereals. This effectively prevents repayment of high interest loans and the potential lenders know this. Traders have no interest in taking over indirect or direct control of low value crops on scattered parcels of low value land. They have better things to do.

Furthermore after the decrees from Central Government during the Emergency (a) amortising private loan repayments (b) restricting private moneylending, high default rates on illegal loans have made them prohibitively costly to administer.

7. 2. Direct Interest in Land of Traders

Almost all cereals traders except those at the polar extremes of firm size have land. They possess far in excess of the district average of 2.8 ha. Of the 36 licenced traders interviewed so far, 7 had no land; 8 had wetland averaging 3.8 ha; 19 had well-irrigated land averaging 4.6 ha; and 16 had dryland averaging 5.7 ha (these types of land were held in different proportions by each trader). The land is hereditary. Little is sold and less bought. Very little was rented out. There was one case (a small trader) of renting in. Mostly these lands are managed with increasing labour problems by daily wage labour and by bonded labour. Such bonded labourers

tie themselves by the year and receive assured monthly wages of Rs. 80-100 in cash. Some trading firms use such bonded labour part time in the firm as well as the farm. Low relative profitability of most crops in comparison with trade was forcing some traders to experiment with luxury crops: flowers, silk production from mulberries and cater-pillars, grapes: but this is not a general trend. Land is kept as an ultimate security, and one of declining exchange value if it is unirrigated.

8. Money and Cereals Production

With the major ties between production and commerce at best reversed and usually severed, who then supplies production loans, should they be required? The big private chettiar bankers whose activities were severely circumscribed under the emergency lend on a reduced scale from the sanctuary of their rural estates. Large farmers also will lend money (I have the official accounts for one such person for a year in the mid seventies:- Rs. 45 lakhs loaned out through the year to 71 people ranging from farmers to cotton ginning factory owners, and from Rs. 36 to Rs.46,822, with Rs. 2 lakhs outstanding at the end of the year). But almost all such intermediaries are repaid in *cash* at interest rates varyiny between 18 and 48 percent. Pawnbrokers also lend on mortgaged jewellery and their numbers have grown recently.

Then the State has intervened (hardly "competed" when its opponents have been outlawed) through co-operative credit on a large scale and via low interest production loans through the nationalised banks. At first sight the role of the State in this sector looks progressive and we shall investigate it in more detail later on. However, widespread "misuse" of loans is reported: for consumption, for the purchase and/or operation of power looms. Default in repayment has paralysed further State loans, and Farmers' Associations (generally of larger farmers) have mobilised non-repayment as means of protesting about the low profitability of agriculture. To what extent State finance responded in the first place to pressure from well organised big farmers for a cheap means of bypassing expensive traders' credit would be worth investigation, as will be the precise *modus operandi* of all the financial institutions described here.

Finally agricultural production finance may be obtained from the non-agricultural earnings of family members (male and female) with industrial employment (in local ginning, spinning, weaving and knitting mills especially), from "savings" from piece rate earnings as workers on power or hand loom machines in rural workshops. To that extent and in that way industrial capital may be linked to agricultural production. We have heard that such non-agricultural employment is the final

activity preventing destitution and/or migration for small and marginal producers. Even more interesting perhaps is the possibility that industrial merchants' capital may participate in the indirect control of agricultural production through "consumption loans" (often never repaid and to be regarded either as outright gifts or as forms of bondage between piece-worker and putter out) given by the yarn merchants. These merchants are either local or located as far away as Erode. This linkage between industrial merchants' capital and petty agricultural commodity production is being investigated in greater depth separately.

General conclusions are hard to draw mainly because of proximity to the immediate subject matter and lack to date of statistical analysis where it is possible. The separation between commodity and money markets in the cereals economy of a dry tract of Coimbatore District contributes to, but is probably only one small factor in the crisis of commercialisation of dryland foodgrains. We cannot say that merchants' capital dominates this sector of the economy. We have also seen that state Trading interventions in the 70s have created conditions which in the short term at least have exacerbated the polarisation of trading firms.

For "cash" industrial crops, to which we shall be orienting fieldwork shortly, we expect shortly, we expect different relationships, possibly specific to each crop. The process of aggregation to discern general tendencies in the agrarian economy as a whole will have to be done very carefully bearing in mind the relative importance of each of the crops studied, an importance which itself could be measured in many ways.

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Table 1
STATE FINANCE OF CROP PRODUCTION 1978-79
Avanashi and Palladam Taluks, Coimbatore District *

(Rs. '000)

Bank Δ	Co-op. Credit Bank	Small Farmers Dev. Agency	Canara Bank	Indian Overseas Bank	Indian Bank	State Bank of India†	Total‡
No. of branches (116 Societies) (blocks)	5	8	3	3	1	3	23
No. of produc. loans	n.a.	331	187	907	3	-	1428
Total amt. loaned short term direct finance	8485	652.8	931	2037	17	-	12122
Sub-total for cereals	n. a.	n.a.	18	34	n.a.	-	52
Cereals as % total loans	-	-	1.3	1.7	-	-	1.6
Total overdue and Outstanding	19145	456	816	2220	16.7	-	22653
% outstanding to total loaned	225	69	87	109	98	-	186

* Provisional Data : Sources = Banks concerned.

Δ Bank = 15 of 18 branches lending to farmers.

† SBI data not yet acquired.

‡ Total minns SBI.

Notes on Table One:

1. Loan ceilings = standard to all institutions: per acre/Rs = total Cash+kind

		Irrigated	Rainfed
Paddy rice	--	800	-
Jowar/cholam/serghum	--	480	250
Cumbu/bajra/millet	--	415	250
Ragi	--	380	250
Ground nut	--	-	380
Tobacco	--	-	1000
Cotton	--	1600	250

2. Maximum ceilings : Co-operative loan = Rs. 10,000

Bank loans = no upper limit.

3. Security = Co-ops = Land

Bank loans below Rs. 10,000 = standing crops.

above Rs. 10,000 = land deeds.

4. Interest Rates = Co-ops = Small Farmers

Central Bank to Societies 8% Societies to
Individuals 10.5%

Central = Other farmers 9.5% " 12%

Overdues add 2%

= Nationalised Banks

Loan size	Interest rate
under Rs. 2500	11%
2500-10,000	12½%
10-50,000	14%
over 50,000	15%
overdues add 2%.	

Informal Financial Markets and the Design of Rural Credit Programs

-Dr. Clifton G. Barton

I. Introduction.

Governments of developing countries, supported by international donor agencies, are currently spending billions of dollars each year in efforts to improve the terms and conditions under which small-scale rural producers obtain access to credit and financial services. The majority of these efforts focus on ways of extending institutional credit schemes to small farmers. Typically the aim is to provide credit to finance agricultural inputs or other production expenses at low, subsidized rates of interests. Frequently, they also have as one of their stated goals replacing traditional credit arrangements between small farmers and informal lenders with new arrangements in which formal institutions become the main source of credit for small producers. The organizational mechanisms that have been employed in different countries are remarkably similar with agricultural development banks, cooperatives, commercial banks and other formal institutions pursuing fairly similar strategies in country after country.

The problems that these types of credit programs have encountered have been as similar as the schemes themselves limited coverage, a skewed distribution of benefits to favor larger farmers, poor repayment performance, high administrative costs, a consequent dependence on continued infusions of outside capital to maintain operations, and a general failure to achieve their original goals of providing alternative sources of credit and financial services to the masses of small producers. Small farmers and other rural producers have continued to rely mainly on their own resources supplemented by credit from traditional sources of credit from informal lenders, such as friends, relatives, shopkeepers, product purchasers, landlords, and professional money lenders, for the bulk of their financial requirements.

Many of the difficulties that LDC governments and donor agencies to encounter

in attempting to improve the terms and condition on which low income rural producers receive financial services derive from the theories and biases held by many development planners relating to financial market development and its role in rural development. There are certain common assumptions made about what approaches should be followed and low success is to be measured. Firstly, the availability of reasonably priced credits is assumed to be a constraint on increased production and the adoption of need technologies. Little attention is given to the capacity of farmers to save or to finance new investments from their own resources. Traditional credit arrangements, including loans from friends, relatives, landlords, merchants, and other "informal" lenders, are often assumed to be roadblocks in the way of small farmer progress. Typically, these judgements are made on the basis of very little effort to understand thoroughly the circumstance and needs of poor rural households, their capacity to save and invest, and the actual terms and conditions on which credit is made available through traditional arrangements.

Secondly, developing institutional credit schemes providing credit directly to small farmers is assumed to be the most effective approach for improving rural credit conditions. Little thought is given to ways building upon existing systems and practices. Instead, efforts are made to substitute institutional mechanisms derived from a fairly limited array of western models for traditional arrangements. Even of improved access to credit on better terms and conditions is something that is needed by small producers, seldom is the question asked of whether institutional credit schemes as they are typically formulated are the most appropriate means of meeting this need and whether the standard and unimaginative array of approaches that development planners have come up with to date are suited to the wide variety of circumstances and conditions of particular countries and regions in the developing world. Might there not be other ways of improving rural credit conditions such as devising measures that increase the supply of informal credit and improve the terms and conditions on which it is received? Or might there not be alternative ways of structuring institutional credit schemes so they are better fitted to the conditions, needs and experiences of small rural farmers?

Additional difficulties are caused by the ways in which the impacts and effectiveness of institutional credit schemes are assessed. Success is typically measured in terms of direct impact (number of loans granted, extent of coverage) and the efficiency of the institutions in carrying out these programs (administrative costs, loan recoveries, etc.) Seldom is the question asked of what is the impact of institutional credit schemes of other development efforts on the overall performance of the rural

financial markets and the actual conditions on which small producers receive financial services. For example, in addition to the credit or financial services that small farmers may receive directly from the institutional outlets, what is the effect, if any on the terms and conditions they receive from informal lenders? As institutional credit schemes have expanded have they produced lower rates and better terms for rural producers dealing with the informal side of the rural financial market? Are there ways in which institutional credit programmes, changes in monetary policies or other development efforts can improve the terms and conditions from these informal lenders? Are there ways of improving the linkages between the formal and informal markets in ways that might benefit the rural poor? Given the extensive dealings between small farmers and informal lenders, it would appear that if development programmes could be devised to improve the performance of the informal financial markets, the impact on small farmers would be far greater than the direct benefits that accrue to the small number of farmers who are able to borrow directly from institutional outlets.

This paper will explore some of the types of considerations relating to informal financial activities that need to be taken into account in designing development efforts aimed at improving the provision of financial services to small scale rural producers.

II. Information Needs For Improved Project Design

The first problem that must be addressed in designing projects that aim to improve small producer access to better financial services from both institutional and informal sources is the problem of information. Discussions of informal lenders are characterized by strongly held views laden with emotion but unencumbered with large amounts of factual information. To rationally consider the possible impact of institutional credit programmes or government policies on the workings of the informal system, or ways which can be developed to improve the performance of informal financial intermediaries in meeting the needs of the rural poor, it is necessary to have better information on a number of areas relating to informal lenders. Some of the areas where data are needed include the following:

1. The magnitude of the supply of informal credit in specific geographical areas and determinants of this supply. The nature of the demand for informal credit. The nature of linkages between formal and informal markets.
2. The variety of informal credit channels available to small farmers. How important are various types of lenders?

3. The nature of the relationships that various types of informal lenders maintain with small producers. What are the actual terms and conditions under which credit relations are maintained? What are the costs and benefits of various types of credit relationships to small farmers?
4. How different types of informal lenders operate. What determines the terms and conditions of their dealings with small farmers (cost of funds, administrative costs, risks, monopoly profits, nature of demand, relationship between borrowers and lender, services provided)?
5. In addition to the above types of information, it would be useful to have a better understanding of the long-term growth potential of various types of informal financial activities. Comparative studies of informal financial markets in countries that have been relatively more successful in their development efforts might possibly help us to understand better the potential role of the informal financial sector in LDCs and policy measures which would help to maximize the contributions of the informal financial sector to the development process. Currently many development theoreticians and practitioners hold the opinion that informal financial relationships decrease in importance as financial markets develop. However, this does not appear to have been the case in many countries—such as Japan, Taiwan, Korea and India—where informal financial transactions have continued to play an important role, particularly in rural areas as development has proceeded. Some types of informal financial activities, such as rotating credit and savings associations (ROSCA'S) even appear to have increased in importance as incomes and investment opportunities have improved. In the United States also, private financial transactions continue to play an important role in agriculture, particularly in land sales, as well as in personal and business affairs.

In countries where in-depth studies of informal financial activities have been carried out, not only do we find that there are reasons to expect that these types of activities may continue to play an important role as development proceeds, but also it has frequently been found that not all informal financial transactions are as disadvantageous to small-scale rural producers as they have been made out to be. Many of the discussions of informal lenders emphasize the high costs of credit obtained from rural money lenders. However, when we compare the terms and conditions on which financial services are available to small-scale rural producers from informal lenders with the actual costs of obtaining credit from institutional sources (when available) we see that the informal lenders frequently offer a number of advantages. These include—

1. Interest charges from many non-institutional sources including friends and relatives ROSCA's, and certain types of marketing intermediaries are often lower than costs of borrowing from formal lenders when *actual borrower* transaction costs are calculated.
2. Timeliness of credit delivery.
3. Little paper work; simple, understandable procedures.
4. Financing from informal sources is available for full range of borrowers liquidity needs including personal consumption.
5. Convenience of dealing with informal financial intermediaries.
6. More flexible repayment terms.

Because of the ways they operate, informal lenders have a number of advantages over formal financial institution in providing credit to rural producers-

1. Personal nature of transactions- personal knowledge of borrowers means lower costs for obtaining information, lower risks, less necessity for paper work, lower transaction costs for lenders.
2. Lower overhead- costs of doing business are lower, potential for profits and viability of business higher.
3. Lower collection cost- ability to bring informal sanctions to bear on borrowers.
4. Flexible interest rates- which can be adjusted according to degree of risk and expenses involved in making loan.

III. Possible Link-up between Informal and Formal Systems in the Design of Rural Credit Projects

A more thorough understanding of the extent, nature, and composition of informal financial markets, the operations of informal financial intermediaries, determinants of the supply of and demand for informal financial services, the nature of the linkages between formal and informal markets, and other such questions relating to informal financial activities in rural areas is a fundamental requirement for designing more rational, effective programmes for making available improved financial services to the rural poor.

Given the importance of informal financial relationships in rural areas, there are three types of questions that might be considered by persons concerned with designing projects and policies to improve credit conditions and financial services in rural areas.

First, the question should be explored of whether there are informal credit mechanisms available in the rural areas in which a credit project is to be introduced which are relatively more advantageous to small-scale producers than alternatives currently available to them and whether or not these types of existing mechanisms could be improved and encouraged. It is important to recognize that informal credit relationships are highly diverse in most countries and offer a range of different benefits and costs to small producers. Some are highly valued and provide the borrower with important services on favourable terms. Others are very costly. Support for relatively more favourable types of informal credit arrangements (for example, credit to product purchasers or input suppliers for on-lending to farmers) might lessen the dependence of small farmers on less advantageous credit sources (for example, from some landlords). A project or policies which improved the availability of credit through these kinds of relatively more favourable informal channels might prove to be a far more effective and less costly way of improving rural financial services for small-scale producers than many of the types of institutional schemes that are currently in favour.

A good example of a rural credit project that attempted to use informal lenders as channels for delivering credit to farmers is found in the Muda Padi Production Credit scheme in Malaysia, carried out by the Bank Pertanian Malaysia under funding provided by the World Bank. As this project was originally formulated, private merchants were selected, along with government sponsored farmers associations, to serve as "Local Credit Centers", with the responsibility of distributing agricultural inputs to farmers on credit. Based on my personal observations of this programme in 1978, it appears that initially the private merchants were an important factor in the early success of this project and were relatively successful in their credit extension and collection activities. Because of subsequent political decisions, however, the private merchants have gradually been phased out of this programme in favour of the farmers' associations, which do not appear to be as effective, overall, as the private merchants. Nevertheless, this project does provide a good example of the possibilities of incorporating informal lenders in institutional credit schemes.

A second question that should be considered when designing rural credit projects is what lessons can be learned by institutional lenders from the operations of informal lenders. Are there aspects of these operations which can be adopted by institutional lenders in expanding institutional credit schemes into rural areas? For example, if it is not politically feasible to use local merchants or private money lenders as local agents for a bank lending programme, might it not be possible for the banks to

develop one or two person rural outlets located in villages and market centers which incorporate in their operations the desirable features of the informal lenders' techniques ? Or in areas where rotating credit and savings associations are common, might it not be possible for banks to develop savings programmes or group lending activities which are structured along similar lines ? From experiences with rural credit projects to date, it appears obvious that highly structured, bureaucratic, inflexible approaches for providing institutional credit in rural areas offer few prospects for long-term success in meeting the needs of small-scale producers. On the other hand, it appears that many lessons could be learned from the simple procedures of informal lenders, their lack of paper work, the personal nature of their relationships with their customers, and their flexibility in dealing with individual needs and requirements. The experimental Rural Finance Project in Bangladesh, currently being carried out under USAID funding by the Bangladesh Bank is an interesting example of an attempt to develop effective rural lending procedures by introducing some of the more flexible and informal techniques of traditional lenders into the operations of the various commercial banks and organizations participating in this project.

A final question that should be examined when credit projects are being contemplated is whether or not there are other measures that might be undertaken as alternatives to credit projects. For example, programmes to promote non-farm employment might provide sources of income which decrease farmers' needs to borrow for consumption on agricultural production expenses. Similarly, irrigation schemes which make possible double or triple cropping might be one of the more effective ways of decreasing farmers' needs for high cost consumption credit needed to sustain the family's activities until the next harvest, in both Thailand and Malaysia, there is evidence that suggests interest rates from informal lenders have declined considerably when double cropping has been introduced. Whether this decline was caused by decreased demand for consumption credit, the growth of non-farm employment opportunities in these areas, the expansion of trading activities in these areas and a subsequent increase in competition among shopkeeper cum money lenders, the introduction of institutional credit programmes or other factors has not been investigated. But certainly the manner in which those types of factors affect the operations of informal financial markets would be interesting to understand and perhaps would have important implications for the design of policies and projects relating to rural financial markets.

IV. Conclusion

If international donors are to have an impact in improving the performance of

rural financial markets in servicing the rural poor, more attention needs to be placed on understanding the nature and operations of the informal financial systems in LDCs. This requires an exploration of social and cultural aspects of their operations, detailed micro-economic analysis as well as attention to macro policies and political considerations. Projects and policies should attempt to link-up the formal and informal systems. Increased attention should be placed on developing experimental projects which test ways of linking up the formal and informal markets or incorporate the techniques of informal lenders in rural credit delivery systems. In this way, the prospects for improving the financial services available to the rural poor will greatly be enhanced.

Formal Credit for Farm and Non-Farm Enterprises in Rural Areas of Thailand

—Prof. R. L. Meyer

Introduction

Agricultural credit policy is emerging as a key policy instrument in Thailand to accelerate and shape the pattern of rural development. Recent policies have sharply increased formal credit supplies in rural areas and have encouraged commercial banks to expand their capabilities to service rural needs. Although the impact of these developments has yet to be carefully analyzed, it is clear that these policies have set in motion a process in which rural credit is taking on increased importance in rural development strategy.

Consistent with trends in many developing countries, Thailand's emphasis on rural credit is directed largely towards farm enterprises including the production, processing and distribution of crops (food and nonfood) and, to a lesser extent, livestock and poultry. Nonfarm enterprises in rural areas have been largely ignored with the exception of large-scale industrial firms concentrated in and around a few large cities. Yet nonfarm enterprises provide significant amounts of employment and income for rural people and increased attention is now being given to them in Thailand. A problem is that there is relatively little information about non-farm enterprises in Thailand, or in most countries for that matter.

This paper describes and analyzes recent developments in rural institutional credit in Thailand.¹ The first section reviews credit activities related largely to farm enterprises, while the second section discusses credit for non-farm enterprises. The

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1. It is generally believed that both farm and non-farm rural enterprises use large amounts of informal credit. However, little information is currently available for use in discussing this source of credit.

final section discusses some of the reasons why lending for rural non-farm enterprises has lagged behind that of farm enterprises.

Financing Farm Enterprises²

The principal sources of formal institutional credit for farmers, processors, and distributors of agricultural products and inputs are commercial banks, cooperatives and the Bank for Agriculture and Agricultural Cooperatives (BAAC). Other government agencies make smaller amounts of credit available for special development projects. The Bank of Thailand (BOT) has been particularly active in recent years in regulating and coordinating financial intermediaries, particularly commercial banks, and providing resources to lending institutions.

The activities of the BOT became important for farmers beginning in 1967 when it was first authorized to rediscount promissory notes arising from agricultural transactions. Rediscount arrangements were eventually developed for notes issued for agricultural production, marketing, livestock production and purchasing of agricultural inputs. By 1978, rediscount operations had grown to over Baht 2 billion³ with BAAC accounting for about 90 percent of the total.

Prior to 1975, only 5 of the 29 commercial banks in Thailand did much farm lending. Since response to rediscounting had been modest, the BOT adopted a quota system. By the end of 1975, the banks were required to lend to agriculture at least 5 percent of their total 1974 lending. The quota could be met either through direct lending or through deposits with BAAC. Loans to agro-business, warehouses, and fertilizer and machinery imports were excluded. Each subsequent year, the quota was raised so that for 1979 it was set at 13 percent of 1978 year-end deposits.⁴ Of that 13 percent, two percent could be allocated to agro-business.

A third policy regarding agricultural lending was later established by the BOT. The previous controls over opening new bank branches were relaxed, but each new branch

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2. This section draws heavily from the paper by Meyer, Baker and Onchan. Additional details and analysis about farm finance are found in that paper.
 3. Twenty baht have been approximately equal to one U. S. dollar for the past several years.
 4. The expected increase in quota to 15 percent for 1980 was postponed due to the liquidity problems of banks at the end of 1979. Some banks were not able to meet their 1979 quotas.

was required to lend at least 60 percent of its deposits in the local area and at least one-third of the loans must go to farmers. Banks not able to meet this requirement must deposit the remaining amount with the Bank of Thailand. A number of banks are having difficulty in meeting this condition so that as of November 30, 1978, such deposits amounted to 68.7 million (Bank of Thailand, *Annual Economic Report*, p. 134) The total number of branches at the end of 1979 had grown to 1,400, but about 60% were concentrated in the wealthier central region.

Finally, in its coordinating role, the BOT works with banks to determine the amount of their quota that should be channelled to BAAC to regularize its source of funds. Several banks still do little farm lending and their entire quota is deposited with BAAC.

The impact of BOT policies on commercial bank lending is clear. The number of banks with agricultural portfolios has grown from 5 to 16. Table 1 shows the growth of bank loans and overdrafts in recent years. From 1971 through 1974, the agricultural share of total lending actually declined slightly. Beginning in 1975, however, that share began to increase until it reached almost 5.5% percent by the end of 1979.⁵

Another measure of commercial bank credit flows is seen in Table 2 where the yearly goal is given along with actual direct lending and BAAC deposits. The goal increased from Baht 4.3 billion in 1975 to over Baht 20 billion by 1979. In the same period, commercial bank direct agricultural lending rose from just over Baht 2 billion to more than Baht 17 billion. In most years, the banks surpassed their lending quota. In 1979 they lent a large amount to agro-business but failed to meet the quota for agriculture due to liquidity problems.

In terms of volume, the largest single source of agricultural credit is BAAC. It was formed in 1966 to take over the cooperative lending activities of the former Bank of Cooperatives and institute direct lending to farmers. The BAAC had 58 provincial branch offices, 409 field offices and over 780,000 farmers registered as branch clients on March 31, 1979 (BAAC).

The financial structure of the BAAC can be seen in table 3. About one-half of the liabilities are represented by commercial bank deposits. About twenty percent of

5: Two reservations need to be kept in mind regarding these data. First, some double counting exists because of inter-bank transfers. Second, some redefinitions of loans probably occurred as banks attempted to meet their quotas.

Table I

COMMERCIAL BANK LOANS AND OVERDRAFTS OUTSTANDING¹

Total and Agricultural, Thailand, 1971-1979

Year	End of Year Balance		Percent
	Total	Agricultural ²	Agricultural
1971	31,709.8	742.7	2.34
1972	35,845.7	771.2	2.15
1973	51,291.2	993.5	1.93
1974	68,815.7	1,305.3	1.90
1975	82,898.8	2,823.7	3.41
1976	96,377.3	4,121.4	4.28
1977	122,810.0	6,340.5	5.11
1978	160,878.5	8,656.9	5.38
1979 (Sept.)	187,185.8	10,183.1	5.44

1. Including inter-bank transfers.

2. Including agro-industries.

(Source: Bank of Thailand, *Statistical Bulletin*, Vol. XIX, No. 11, November, 1979)

the liabilities are deposits by private individuals and government agencies. Almost twenty percent represent rediscounting of notes with BOT. The BAAC has become more active recently in deposit mobilization from farmers, but previously it was heavily dependent on government support and commercial bank deposits.

BAAC basically makes two types of loans: loan to individual farmers, usually organized in informal groups, and loans to Farmers Associations and Cooperatives. Table 4 reports on the growth of loans in each category. The volume of loans made and outstanding grew slowly until 1974 when the growth rate sharply increased in large part due to the commercial bank deposits. The total amount of BAAC credit outstanding at the end of fiscal year 1978 was just over Baht 9 billion. However, due to the more rapid growth of commercial bank lending in recent years, the amount of agricultural credit outstanding from these two important sources was about equal.

Table 2
AGRICULTURAL LENDING BY COMMERCIAL BANKS
 Year-end Balances, Direct and BAAC Deposits Thailand, 1975-1979.

		(Million Baht)			
Year		Goal	Direct	Actual	
				BAAC Deposits	Total
1975		4,333.3	2,233.6	1,670.8	3,904.4
1976		6,139.0	3,810.9	3,160.6	6,971.5
1977		9,647.0	5,891.8	4,528.0	10,419.8
1978	Agriculture	11,771.0	8,099.5	5,511.4	13,610.9
	Agrobusiness	2,616.0	6,382.5	—	6,382.5
Total		14,387.0	14,482.0	5,511.4	19,993.4
1979	Agriculture	17,322.4	9,970.0	6,330.1	16,300.1
	Agrobusiness	3,149.6	7,755.8	—	7,755.8
Total		20,472.0	17,725.8	6,330.1	24,055.9

Source: Bank of Thailand unpublished statistics.

One way to place agricultural credit in perspective is to compare growth of credit with growth of output. Although the data are somewhat incomplete, it appears that the ratio of formal agricultural credit to agricultural GNP was about .03 in 1973. The ratio increased to more than .13 by 1977. This increase suggests that farmers should have been able to finance a substantially larger proportion of their agricultural output with formal credit.⁶

Unfortunately, there have been no large-scale surveys of Thai agriculture in recent years which show how many farmers have benefitted from this credit expansion.

6. The calculations and assumptions used in deriving these estimates are explained in detail in Meyer, Baker and Onchan.

Table 3

BAAC LIABILITIES AND CAPITAL

March 31, 1979

(Million Baht)

Item	Amount	Percent
Liabilities		
Deposits		
Public and govt. agencies	2,167 ¹	19.8
Commercial banks	5,586	51.0
Borrowings		
Domestic sources	327	3.0
International sources	627 ²	5.7
Notes payable to BOT	1,990 ³	18.2
Other liabilities	255	2.3
Total	10,952	100.0
Capital		
Paid-up capital		
Held by Ministry of Finance	1,403	79.1
Held by cooperatives and private individuals	17	1.0
Accumulated profit	296	16.7
Reserves	57	3.2
Total	1,773	100.0

1. General time and saving deposits, and unmatured balances of loan compensatory deposits.
2. Loans from U. S. and Japan.
3. Rediscount operations with BOT.

Source: BAAC, *Annual Report, 1978*.

It appears that over 700,000 farmers have been reached by BAAC credit, either through individual loans or through Associations and Cooperatives, although the number that is borrowed in any one year may be significantly less. It is generally believed that commercial banks serve larger farmers and make larger average size loans than BAAC. Assuming that some farmers receive more than one loan and some borrow from more than one source, it is possible that a total of 1 million Thai farmers may have received formal credit in recent years. The total number of farm households is about 5 million so perhaps 20 percent have received credit.

A number of problems obviously exist at this stage in the development of the agricultural credit system. Significant amounts of arrears are accumulating in BAAC.

Table 4
BAAC LOANS BY TYPE OF BORROWER
Thailand, 1970-1979

(Million Baht)

Year	Loans to Individuals		Loans to Farmers Associations		Loans to Agricultural Cooperatives	
	Made	Outstanding	Made	Outstanding	Made	Outstanding
1970	563.3	753.7			198.1	409.2
1971	509.4	843.3			203.5	539.5
1972	670.9	993.8			276.7	681.5
1973	773.7	1101.2	3.4	3.4	307.0	785.3
1974	1203.7	1446.1	142.7	138.6	388.7	966.6
1975	2100.9	2472.8	387.8	440.9	866.1	1642.4
1976	3200.9	3848.9	288.2	533.0	914.7	2729.9
1977	3789.2	5012.0	267.4	589.6	1005.6	2679.0
1978 ¹	4014.7	4403.9	263.9	521.0	1207.4	2536.1
1979 ²	4876.3	5679.7	183.4	481.8	1641.1	3008.1

1. Jan. 1977 to March 31, 1978.

2. Fiscal year April 1, 1978 to March 31, 1979.

Source: BAAC Annual Reports and unpublished statistics.

The cost of making and servicing loans is high and lenders complain about the impact of costs on profits. Most credit goes for short-term purposes and, although important experiments are underway with group liability loans, most borrowing requires collateral. The Bank of Thailand has noted that the expansion of formal credit has mainly benefitted middle income farmers and relatively wealthy farmers with loan collateral (Bank of Thailand, *Annual Economic Report*, p. 9). Nevertheless, these recent changes have done much to increase the current and future importance of agricultural credit in shaping rural development in Thailand.

Financing Rural Nonfarm Enterprises

The previous section briefly summarized recent developments concerning credit for farm enterprises. This section covers nonfarm enterprises. Two types of enterprises are of interest. One type is enterprises found in farm households not directly associated with the production of food and fiber. This category covers such diverse enterprises as pottery making; mat making, baskets and other bamboo products; brick making; tailoring, dress making, silk and cotton weaving etc. The second type refers to enterprises found in nonfarm firms in rural towns and villages. These include processing enterprises for rice, cassava, kenaf, fruits and vegetables; repair shops; silk and cotton textiles; wood, leather and metal products; pottery and ceramics; etc. Many of these enterprises are closely tied to farming because they use farm produced raw materials or labor or are highly dependent on farm demand.

Rural nonfarm enterprises are increasingly recognized for their important role in rural development. First, employment in these enterprises represents a significant share of total employment and income for many rural people. Second, the production of these enterprises many of which are small-scale, represents a significant amount of total output for some industries. Third, compared to large-scale firms, rural small-scale enterprises frequently are less capital-intensive, are more geographically dispersed, offer more opportunities for unskilled and family labour, have greater linkages with the agricultural sector, and have greater export potential than frequently assumed.

Thailand is beginning to recognize the importance of these enterprises and the Fourth Five-Year Plan places increased emphasis on them (Government of Thailand). Unfortunately, there is little information on the nature, extent and composition of these

7. See Anderson and Leiserson, Chuta and Liedholm, and Meyer et. al. for a more detailed discussion of economic development issues associated with these enterprises.

enterprises or their problems. The results of one of the few studies conducted on small-scale industries were recently discussed by Tambunlertchai. This study was based on a nationwide sample of more than 1,000 small-scale manufacturing firms employing from 10 to 200 workers. The results showed the expected pattern of a large number of labor-intensive small firms with fewer more capital-intensive large ones. Like similar studies in other countries, the study concluded that small firms faced financial problems, were mostly self-financed and depend much more on informal credit in both the initial and operating stages of production. They have poor accounting and lack collateral so they frequently turn to informal credit sources with higher interest rates.

Although the argument is appealing, in reality it is very difficult to determine the extent to which inadequate formal credit is a real constraint for small-scale firms.⁸ However, considering the present situation in Thailand, the credit constraint argument is plausible.

Only fragmentary information is available on formal credit for nonfarm enterprises. Commercial banks, BAAC, the Industrial Finance Corporation of Thailand and the Small Industries Finance Corporation are the most important potential sources of formal credit. Commercial banks and BAAC logically should be the most important sources since they have the most available resources and only they have a widespread network of branches throughout the country to serve local customers. Unfortunately, it is impossible to analyze the distribution of credit by banks to nonfarm enterprises because most of it is provided through and reported as overdrafts. Apparently much of the credit used by processors of rice and cassava for purchasing supplies is obtained by overdrafts. It is unlikely that many small nonfarm firms receive much credit in this way, however, since overdraft provisions require a deposit account and normally are fully collateralized. Furthermore, it appears that only one bank, the Siam Commercial Bank, is beginning to experiment with a special loan program for nonfarm firms. Likewise, with the exception of a few small special projects, BAAC has put little emphasis on nonfarm enterprises. However, since many farm households have both farm and nonfarm enterprises, it is likely that some funds borrowed from banks and BAAC, supposedly for farm enterprises, have been used for nonfarm enterprises, with or without the knowledge and consent of the lender.

The privately owned Industrial Finance Corporation of Thailand (IFCT) is another potential credit source. It was incorporated in 1959 as a development bank to

8. See Meyer for a more detailed discussion of the problem of clearly establishing the existence of external credit constraints.

“offer financing facilities which are more attractive in terms and conditions than those which are generally available from other financial institutions within the country, so as to encourage increasing industrial activities in Thailand’s private sector” (IFCT, p. 2). The government has assisted IFCT with low interest loans, guaranteed loans obtained elsewhere, and exemptions for taxes on income and profits. IFCT makes direct medium and long-term loans, both in local and foreign currencies, to establish, expand and modernize industry and participates with commercial bank in large-scale

Table 5
LOANS MADE AND OUTSTANDING BY SIFO, THAILAND
1964-1968

(Thousand Baht)

Year	No. of Loans	Amount of Loans	Loans Outstanding
1964	12	2,439.0	1,289.0
1965	49	11,049.0	10,746.8
1966	70	15,667.0	19,410.6
1967	86	22,022.5	33,399.9
1968	112	26,226.5	51,922.4
1969	119	31,656.0	66,951.1
1970	114	26,358.0	72,567.6
1971	67	18,554.0	75,333.5
1972	79	21,678.0	75,504.2
1973	58	16,229.0	67,548.0
1974	43	14,917.0	58,170.3
1975	72	28,675.0	N. A.
1976	60	26,290.0	N. A.
1977	83	46,195.0	N. A.
1978	85	44,880.0	N. A.
Total	1,109	352,836.0	

Source: 1964-1975, Small Industry Finance Office (SIFO), *Annual Report, 1975*.
1976-1978, SIFO, mimeographed statistical summaries.

Table 6
SIFO LOAN COMMITMENTS BY INDUSTRY, THAILAND
1964-1975

(Thousand Baht)

Industry	No. of Loans	Amount of Loans
I. Metal working		
a. Metal products	61	22,041
b. Machinery	28	9,281
c. Servicing	95	23,403
d. Handicraft	17	2,637
II. Construction materials	164	42,770
III. Textile	95	31,111
IV. Leather industry	14	3,944
V. Ceramic	20	6,140
VI. Food	86	26,425
VII. Animal feed	72	21,608
VIII. Chemical	11	2,162
IX. Handicraft	47	9,060
X. Rubber products	23	9,372
XI. Wood products	13	3,035
XII. Plastic products	15	4,490
XIII. Boat and bus body building	18	7,019
XIV. Miscellaneous	38	11,492
Total	818	235,990

Source: Small Industries Finance Office (SIFO), *Annual Report, 1975*.

projects. Beginning in 1978, IFCT began to make working capital loans to its clients. It also makes equity investments in certain projects.

During the 1970's, IFCT made 40 to 50 loans per year. In 1978 it approved 45 loans for just over Baht 1 billion, and at the end of 1978 it had about Baht 2 billion in

loans outstanding. The principle industry to benefit in 1978 was cement manufacturing. Eight agriculturally related enterprises received about Baht 60 million (Bank of Thailand, *Annual Economic Report*).

The nature and composition of IFCT lending was analyzed by the Asian Development Bank for 188 loans approved in the 4 years of 1974 to 1977 (Asian Development Bank, p. 54). About 80 percent of the loans went to manufacturing enterprises with food products and tobacco representing close to 20 percent. Most of the rest of the loans went to enterprises that appeared to have little relation with agriculture. Thirty six loans were for more than Baht 20 million each and together they represented 60 percent of the total volume of loans. About half the loans went to the Greater Bangkok area. Thus it appears that most IFCT lending has not had much impact on rural nonfarm enterprises. Most of its lending has been concentrated in large loans. Recently, however, the IFCT has shown more interest in small and medium industries. It financed the study by Tambunlertchai mentioned above with the objective of obtaining information from it of use in future lending programmes.

Another potentially important credit institution for rural nonfarm enterprise is the government's Small Industries Finance Office (SIFO) created originally in 1964 and subsequently reorganized. It was created to provide financial and management services to small industries and power generating facilities. Its financial structure permits it to make only about Baht 200 million in total loans. Loans can be made for a maximum of 10 years for purchasing machinery and equipment, acquiring land for plant sites, erecting buildings, and for working capital. The maximum size loan is Baht 1 million per client.

Currently SIFO has less than 1,000 loans outstanding with a total value of Baht 130 million. Table 5 gives detailed information on the evolution of SIFO lending. By 1978 after 15 years of operation, only 1,109 loans had been made for just over Baht 352 million. Recall that IFCT made over Baht 1 billion loans in 1978 alone. The most loans made by SIFO in any one year, 119 were made in 1969 when Baht 32 million were lent. The largest amount of money lent in any year was in 1977 when Baht 46 million were lent. Almost 95 percent of the total loans were for 6 years or less. Furthermore, not all loans are completely disbursed in the year made. Thus the maximum amount of loans outstanding never reached more than Baht 75 million between 1964 and 1974.

The most recent detailed breakdown of industries receiving SIFO loans covers loan commitments through 1975 (Table 6). Metal working industries represent the largest single beneficiary, closely followed by construction materials. The distribution of

loans gives the impression that a surprisingly large number of firms benefitted are urban oriented. This impression is strengthened by analyzing data on geographic distribution of loans made. Table 7 reports on 997 loans made from 1964 to 1977 and 85 loans made in 1978. About 28 percent of the loans with 32 percent of the volume went to Greater Bangkok from 1964 to 1977. An additional 16 percent of the loans with almost 20 percent of the volume went to the other provinces of the Central Region. Thus, over half of the loans went to the richest region of the country, while the poorest Northeast Region with the most serious employment problems received only 15 percent of the loan volume. The situation was even worse in 1978 when the Central Region received almost 70 percent of the loan volume compared to only 3 percent for the Northeast. This regional shift seems to have become more accentuated in recent years. For

Table 7
GEOGRAPHIC DISTRIBUTION OF LOANS MADE BY SIFO, THAILAND
1964-1978

(Thousand Baht)

Region	1964-1977				1978			
	No. of Loans	Percent	Amount of Loans	Percent*	No. of Loans	Percent	Amount of Loans	Percent
North	125	13	30,102	10	9	11	4,030	9
Central (except Bangkok)	161	16	59,911	20	26	31	17,350	39
Greater Bangkok	280	28	99,533	32	27	32	13,630	30
East	82	8	24,563	8	2	2	1,400	3
Northeast	177	18	44,917	15	6	7	1,380	3
West	10	1	29,952	10	8	9	4,950	11
South	69	7	17,823	6	7	8	2,140	5
Total	997	100	306,801	101	85	100	44,880	100

* Total not equal to 100 due to rounding.

Source: SIFO, *Annual Report, 1975* and mimeographed statistical summaries.

example; an analysis of the loans made in 1975 showed that about 40 percent of the volume went to Greater Bangkok.

These performance measures analyzed for SIFO suggest that it has been an insignificant institution in terms of loan volume, although it may have made an important and necessary contribution to its customers. Furthermore, it has not significantly assisted agriculturally related enterprises, nor has it materially contributed to reducing industrial concentration in Greater Bangkok.

Incentives And Disincentives For Financing Rural Nonfarm Enterprises

Admittedly, the data reported above are somewhat sketchy but the impression emerges that Thailand has been successful in introducing a new dynamism in formal credit for farm enterprises but credit for rural nonfarm enterprises has been largely ignored. What explains this apparent lack of consistency in policies? Why has BAAC, a government agency, been given massive support, while SIFO has languished? This contradiction is discussed in this section.

When analyzing formal credit policies, it is always useful to review the origins of and justifications given for policies by policy makers. Many countries have used a so-called "supply-led" approach to financial markets. That is they believe that increased credit supplies will stimulate output and increase income. By encouraging financial intermediaries to expand farm lending and by setting up specialized agricultural credit institutions, these countries hope to achieve macroeconomic goals of agricultural production. Until recently, however, Thailand's agricultural credit policy has been heavily influenced by a belief that Thai farmers are victims of moneylenders (Onchan). It is believed that capitalists and middlemen exploit farmers by charging exorbitant interest rates and confiscate their land when they fail to repay. Thus, formal credit is seen as a means to provide alternatives to middlemen and protect the farmers. Cooperatives were introduced in 1916 mainly to free farmers from heavy debts and high interest rates.

Thailand's aggregate agricultural performance has been quite satisfactory. Historically, it has been a food surplus country and has enjoyed that position in spite of growing population because it could expand its agricultural frontier. In recent years, horizontal expansion has become more difficult and expensive so ways have been sought to improve productivity. Credit constraints are seen as an impediment to productivity growth so an expansion of formal credit is identified as a necessity for technological change rather than simply as an alternative to moneylenders. Thus the

recent emphasis on agricultural credit can be viewed as part of the Thai decisionmakers response to perceived resource constraints.

But what explains the relatively little support given to rural nonfarm enterprises? Obviously political issues may provide a partial explanation. The farm population is large and visible, the rural nonfarm population is diverse and dispersed, and the political threat from low income urban consumers if agricultural production lags is obvious. But also, like many developing countries, the capital city of Bangkok far outstrips other urban centers in size, economic importance, growth, preferred place to live and educate children, etc. Thus industrial activities and locational incentives historically have favored Bangkok.

Some locational advantages of locating nonfarm enterprises in Bangkok are associated with closeness to port, and natural economies of doing business close to government offices, and financial and marketing centers. Some advantages however, may be policy induced. One theme which has dominated development planning for many countries is the supposed existence of unlimited supplies of rural labor which can be easily and with little social cost attracted into industrial employment.⁹ Thus the policy objective becomes one of accelerating the intersectoral flow of labor by speeding industrialization in urban areas. This line of reasoning has prompted countries to largely overlook the employment and growth potential of small-scale sector and concentrate resources instead on large-scale firms. Thus, industrial parks have been developed, tax incentives and other preferences given for new industries, and credit programs established, such as IFCT, to reduce costs of financing new or expanded firms. The current emphasis on the small-scale sector is recent in most countries, including Thailand, so it is not surprising that institutions and favorable policies are lagging for this sector compared to the farm sector.

The creation of SIFO several years ago seems a bit inconsistent considering the argument given above, but its poor performance is not that. What explains its performance? why has it not lent to the maximum of its authorized limit? Lack of insufficient demand for loans may be a partial explanation and only a detailed analysis of small-scale firms will determine the nature of potential demand. However the operation of SIFO itself provides part of the explanation and is an existing example of institutional disincentives worthy of analysis.

SIFO was actually set up as a type of joint venture with the partially government

9. This issue is discussed in more detail in an article by Meyer and Larson,

owned commercial Krung Thai Bank.¹⁰ The Bank appraises the security offered as collateral for a loan, while SIFO conducts the technical and economic assessment of the application. A Loan Board composed of the General Manager of the Krung Thai Bank, the Managing Director of SIFO, and representatives of several government offices makes the final decision on the application.

A special joint loan fund was developed on a 1 to 3 formula, that is the government provided about Baht 50 million for SIFO's contribution, while the Bank provided a little over Baht 150 million for a total fund of just over Baht 200 million,

This arrangement has created an unusual set of disincentives for both SIFO and the Bank. First, SIFO earns a fixed income of 3 percent of approximately Baht 50 million, or Baht 1,500,000. With this amount it must meet the rising costs of appraising loans in an inflating economy. It is forced, therefore, to reduce expenses by curtailing travel out of the Bangkok area and by increasing the average size of loans made. Thus it is logical to find SIFO's portfolio becoming increasingly concentrated in loans made in or near Bangkok, and it cannot be aggressive in seeking new customers elsewhere.

On the other hand, as a commercial bank, the Krung Thai Bank has alternative uses for its funds. Before a recent change in Thailand's usury law, it could charge a maximum rate of 15 percent interest. The Bank is evaluated with several standard banking performance measures even though it is government owned so the officers are logically concerned about costs and income. The Bank has three options when faced with a loan recommended by SIFO: make the loan using the special SIFO/Bank fund, make the loan directly with its own funds or refuse to make the loan.

Consider a loan of Baht 1 million, the maximum currently allowed under the program. Under the first alternative, Baht 250,000 would be drawn from SIFO funds and the balance from the Bank. The Bank would earn 9 percent interest or Baht 90,000 per year. Assume further the average cost of the Bank's resources is 6 percent.¹¹ Thus apart from the costs of appraising the collateral, the Bank's costs are Baht 45,000 ($\text{Baht } 750,000 \times 0.06$) so the annual net return is Baht 45,000. Suppose, however, the application is sound enough so the Bank makes the loan directly at the maximum rate of 15 percent. Then its income is Baht 150,000 and costs are Baht 60,000 for a net income

10. The operation and structure of SIFO is described in the *Annual Report, 1975*.

11. Based on the structure of deposits at the time, it was estimated that the weighted average cost of commercial Bank deposits in 1978 was 5.5 percent (Meyer, Baker and Onchan, p. 37).

of Baht 90,000. In the first case, the rate of return on Baht 750,000 invested is 6 percent, while in the second case the return is 9 percent on Baht 1 million. Of course, in the second case the Bank must conduct its own analysis of the application and suffers the entire loss if there is one. But the example shows why, as it is alleged, the Bank would choose to make some loans directly to applicants after SIFO has done the analysis. It also suggests why the Bank would be reluctant to lend all funds committed to this program when it has alternative uses earning a higher rate of return.

It would appear that a borrower would be disadvantaged by 15 percent Bank rate compared to the 9 percent rate of the SIFO program. Of course, the borrower might be able to negotiate a lower Bank rate. If not, the difference in cost borne by the borrower may be less than it appears. SIFO has developed a complicated set of procedures which require time-consuming and expensive trips by the applicant to Bangkok where SIFO's office only is located. Then he must also work with the local Bank branch that will appraise the collateral and process the loan. If the lost time and related expenses were evaluated, the total cost to the borrower of the so-called "cheap" loan could be substantially higher than 9 percent, especially if the loan is small.¹² If the local Krung Thai branch would expedite a commercial loan, a 15 percent rate could be more attractive.

This program also represents another example of the fallacy of subsidized interest rates so popular in many credit programs. The objective of a subsidized interest rate (i. e. a rate lower than prevailing for other loans) is to help a sector considered worthy of such assistance. Yet the peculiar SIFO-Krung Thai Bank arrangement, with the disincentives inherent in the low interest rate, restricts the expansion of loans to a broader clientele. Few loans are made and borrower costs are substantially higher than the subsidized interest rate. Clearly the intended beneficiaries are not well served by this arrangement. Fortunately, the Thais have been aware of these problems for some time and a proposal is being developed to restructure SIFO, perhaps along the lines of IFCT. But if it follows the pattern of lending of IFCT, as noted above, the prospects are not bright for major improvements in credit availability for rural non-farm enterprises through SIFO.

Conclusions and Implications

This paper summarizes the great progress Thailand has made in recent years in

12. Adams and Nehman have documented several similar cases of high borrower costs for small farm loans.

making farm credit policy an important component of rural development strategy. Little attention has been given, however, to increasing the supply of credit for rural nonfarm enterprises. The question of demand for credit by nonfarm enterprises has yet to be analyzed and some research is underway that will shed some light on the issue.¹³ Even without such research, we could more confidently argue that demand is a constraint if we had an effective credit supply system which had difficulty in finding potential borrowers. However, with the limited information available it is impossible to deduce the nature of demand.

Clearly if the small-scale sector is to play the role in the economy envisaged in the current Five-Year Plan, Thailand must systematically analyze the current status of supply conditions of formal credit and alternative methods of improvement. Three lines of inquiry are urgent. First, the analysis of an improved structure for SIFO must be intensified and accelerated. A restructured SIFO is not going to resolve the entire supply issue but, if it is going to exist, it is uneconomic for it to operate with its current small portfolio and resources. Furthermore, if it had a more aggressive innovative programme, it could provide useful support to other financial intermediaries and the government by more clearly identifying; a) the nature of demand for credit and b) enterprises with the best potential for expansion.

Second, analysis is required concerning problems of lending to the small-scale sector. There is little information available in Thailand on important issues such as the returns, costs and risks of lending to small nonfarm firms compared to large firms or compared to farm lending.¹⁴ Information on these issues would be helpful in quantifying the level of interest rate that would provide lenders with incentives to expand their portfolio in this area. If this rate was discovered to be high given the profitability of these firms, it would then be possible to more systematically analyze if a subsidy is required, if so, how much, and what is the most effective way of providing it.

Third, there are a number of interesting programs in other Asian countries providing support for the small-scale sector. Japan, the Philippines, India and, more recently, Korea have all been active in this area. Some programs focus on infrastructure, others trading services, others technical assistance, others vocational training, and others industrial estates. Some programs provide only credit, while others include credit as one component in a package of services. These experiences should be analyzed.

13. See Onchan et. al.

14. A study by Saito and Villanueva of the Philippines experience is an interesting example of the type of analysis that could be useful.

zed to learn what has worked and what has failed. They could provide useful insights as Thailand considers how to meet the stated objective of assisting the small-scale sector to play a more dynamic role in the economy.

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Part Three

**WORKSHOP ON
"SMALL FARMERS DEVELOPMENT & CREDIT POLICY"**

April 7-11, 1980

PROGRAMME SCHEDULE

April 7, Monday

8.30-9.00 Registration of Participants

9.00-10.00 Opening Session

Chairman: Dr. Y. P. Pant
Chairman, Economic Commission

Welcome Address: Dr. Dip Raj Sharma
General Manager, ADB/N

Opening Remarks: Prof. R. L. Meyer

Inauguration and

Inaugural Address: Hon'ble Mr. Bijaya Prakash Thebe
Minister of State for Food, Agriculture, Industry & Commerce

Chairman's

Remarks: Dr. Y. P. Pant

Vote of Thanks Mr. C. M. Pradhan

Director, ACTI, ADB/N

10.00-10.30 Tea Break

Morning Session: NEPAL-DEVELOPMENT EXPERIENCES

10.30-12.30

Chairman: Hon'ble Dr. Mohan M. Sainju
Member, National Planning Commission

Papers:

1. Strategy for the Development of Small Farmers through Group Approach
-Mr. B. B. Pradhan
2. Participation, Local Organisation and Rural Development
-Dr. M. Banskota
-Dr. P. Roy
3. Institutional Requirement for Rural Development Nepal
-Mr. K. S. Sharma
4. Experience in Group Approach to Small Farmer Lending
-Mr. Narendra K. C.

Rapporteur: Mr. S. P. Sharma
Mr. P. N. Ojha

12.30-14.00

Lunch Break

SMALL FARMERS DEVELOPMENT STRATEGY

Afternoon Session:

14.00-17.00

Chairman: Dr. Govind R. Agrawal

Papers:

1. Small Farmer Development through Integrated Rural Development
-Mr. B. K. Shrestha
2. Strengthening the Receiving Mechanism in the Rural Areas

through the Organization of
Small Farmers Group.

-Mr. J. P. Joshi

3. Impact of Small Farmers

Development Programme on
Farm Output, Net income &
Adoption of New methods. A
Nepalese Case study.

-Mr. C. M. Rokaya

Repporteur: Mr. Narendra K. C.
Mr. P. P. Acharya

April 8, Tuesday

Morning Session:

GROUP LENDING

8.30-12.30

Chairman: Mr. Dor B Bista

Papers:

1. Credit & Small Farmers Group-
The Grameen Bank Project,
Bangladesh Bank.

-Mr. M. Yunus

-Mr. J. A. Rahman

2. Group Lending: Its Potential
for Overcoming Rural Financial
Market Barriers

-Mr. B. M. Desai

3. Small Farmer Development
Programme in Nepal.

-Dr. P. C. Lohani

4. Small Farmers Development
Programme-Problems and Pros-
pects.

-Dr. T. N. Pant

Rapporteur: Mr. S. P. Sharma
Mr. P. N. Ojha

12.30,

Lunch, Break

Afternoon Session: INTEREST RATES AND SAVINGS

14.00-17.00,

Chairman: Mr. Kul Sekhar Sharma

Papers:

1. Current Issues in Agricultural Finance: Interest Rates & Savings Mobilization.
Prof. R. L. Meyer
2. Experimental Approach, to Rural Finance in Bangladesh-First Year Findings.
Mr. G. D. Adams
3. Measures taken in Mobilizing Rural Savings in Nepal
-Mr. I. R. Pandey
4. Rural Finance Experimental Project - Village Agent Model
-Mr. Quazi Sharafat Hussain

Rapporteur: Mr. Narendra K. C.
Mr. P. P. Acharya

April 9, Wednesday

INFORMAL FINANCE AND NON FARM FINANCING

Morning Session:

8.30-12.30

Chairman: Mr. B. M. Desai

1. Production & Circulation of Cereals in a Dry Land Tract of

Coimbatore District,
South India.

-Mrs. B. Harriss

2. Informal Financial Markets and
the Design of Rural Credit Pro-
grams.

-Dr. Clifton G. Barton

3. Formal Credit for Farm & Non-
Farm Enterprises in Rural Area
of Thailand

-Prof. R. L. Meyer

12 00-14:00

Lunch Break

Afternoon Session:

SUMMING-UP

14 00-17.00

Chairman:

Mr. B. B Pradhan

April 10, Thursday

Field Visit to Small Farmers Development Project,
Tupche, Nuwakot.

LIST OF PARTICIPANTS

A. HMG and other Institutions/Nepal

<u>Name</u>	<u>Title</u>
Prof. Indra Raj Mishra	Director General, Department of Agriculture Marketing Services, Kathmandu
Mr. Rameshwar Bahadur Singh	General Manager, Agricultural Input Corporation, Kathmandu
Mr. Giri Raj Gautam	Deputy Director, Land Reform Department, Kathmandu
Mr. Baija Nath Chalise	Ministry of Home Panchayat, Singha Durbar
Mr. Tejeshwar Bahadur Gongah	Ministry of Home Panchayat, Singha Durbar
Mr. Bihari Krishna Shrestha	Joint Secretary, Ministry of Home Panchayat Singha Durbar
Mrs. Chandani Joshi	Ministry of Home Panchayat, Singha Durbar
Mr. Purushottam Gorkhali	Regional Director, Regional Agriculture Directorate, Harihar Bhawan, Pulchok, Lalitpur
Mr. Shambhu Man Singh	Joint Secretary, Ministry of Food & Agriculture Singha Durbar
Dr. Thakur Nath Pant	Joint Secretary, Ministry of Food & Agriculture Singha Durbar
Mr. Bidur Kumar Thapa	Joint Secretary, Ministry of Food and Agriculture Singha Durbar
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Mr. Ruby Joshi	Chief Officer, Nepal Rastra Bank, Baluwatar
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Mr. Kul Shekhar Sharma	Integrated Development System, Dilli Bazar, Kathmandu.
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Mr. Purna Kanta Adhikary	Advisor, New Era, Kathmandu
Mr. Tek Raj Joshi	Project Manager, IHDP/Sanepa, Lalitpur

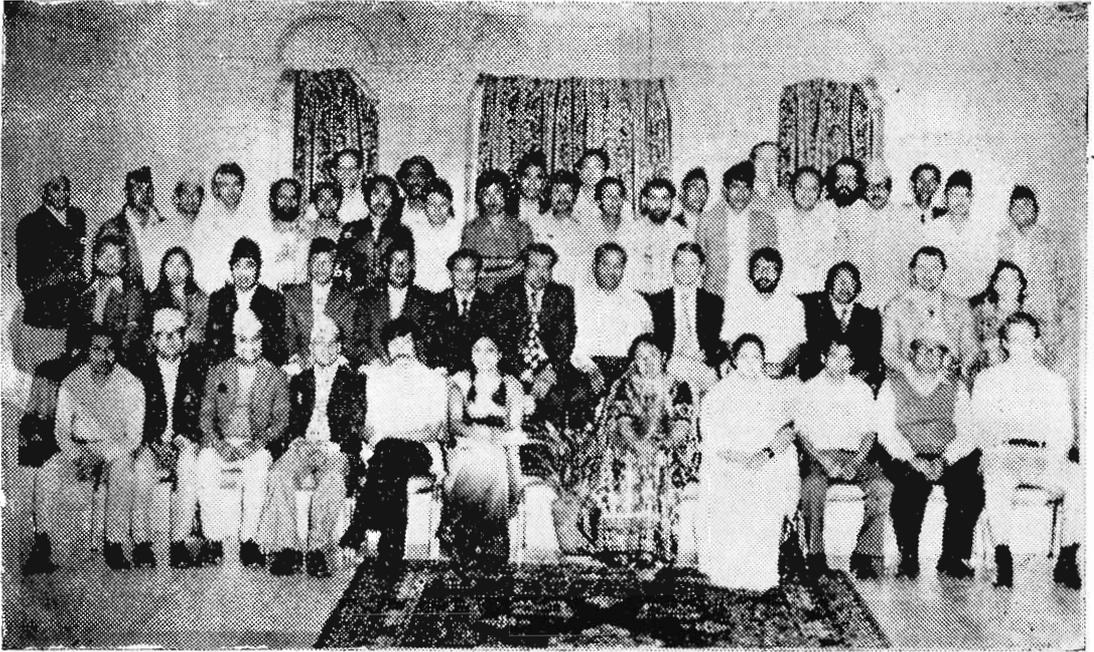
B. Agricultural Development Bank

Dr. Dip Raj Sharma	General Manager, Kathmandu
Mr. Shri Krishna Upadhyaya	Deputy General Manager, Kathmandu
Mr. Shanker Man Shrestha	Regional Manager, Mid-Region, Kathmandu
Mr. Chandra Man Pradhan	Director, Agricultural Credit Training Institute Head Office, Kathmandu.
Mr. Pramod Nath Regmi	Division Chief, Head Office
Mr. Narayan Das Manandhar	Division Chief, Head Office
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Mr. Janardan Prasad Joshi,	Division Chief, Head Office
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