

THE STRUCTURE AND COMPOSITION OF AGRICULTURAL CREDIT

Because Nepal Rastra Bank - the central national bank, was established as late as 1956, not much is known about the extent of rural and agricultural indebtedness in Nepal in a time-series fashion. But because the banking institutions in Nepal are of recent creation, it can easily be inferred that non-institutional sources virtually supplied almost all of the agricultural and rural credit until the early 1960s.

The first agricultural credit survey was conducted by Nepal Rastra Bank during 1969-71. The survey work took two fiscal years 1969/70 and 1970/71. For this purpose, 32 districts were considered as accessible and as having a primary population. This excluded all the high hill districts in the north and so the survey result cannot be expected to represent them. These 32 districts had in total 2,006 *Panchayats* out of which 52 were selected on a stratified - random basis. In total, there were 35 Village *Panchayats* in the *Terai* and 17 in the hills, covering 22 districts in total. Agricultural households were defined as those households cultivating at least 0.05 ha of land. Sixty such households were selected from each of the 52 *Panchayats*. Thus, 3,120 households were covered by the survey⁸.

An agricultural credit review survey was conducted seven years later in 1978. The survey work was limited to a much smaller period of three months (March-June, 1978). For the purposes of survey, 39 districts were defined as accessible, out of which 14 (5 from the Hills and 9 from the *Terai*) were selected. From these 14 districts, 45 Village *Panchayats* were selected. Finally, 59 households from each *Panchayat*, totalling 2,655 households, were selected for interviewing⁹.

Profiles of Borrowers and Loans

The first survey showed that on aggregate about 38 per cent of the farm families borrowed for different purposes during the FY 1969/70. The proportion of borrowing farm families was slightly higher in the *Terai* (39%) compared to the hills. This situation changed significantly over a seven year period and over 51 per cent of the farm families reported borrowing during the FY 1967/77. The proportion of borrowing farm families was significantly higher in the *Terai* (52%) compared to the hills (42%).

Average borrowing at the aggregate level increased from NR 132 to 886 during the period, implying an over four-fold increase. The rate of increase was much higher for the *Terai* (415%) compared to the hills (180%). The average size in the later period was much higher in the *Terai* (NR 670) than in the hills (NR 380), although it was remarkably similar in the earlier period (Table 1).

The Purpose of the Borrowing

The survey result showed that for the FY 1969/70, the highest proportion (44%) of borrowing was accounted for by consumption expenditure, and this is true for both the hills (49%) and the *Terai* (42%). In contrast, the hills reported the lowest percentage of loans (4%) for farming and the *Terai* (6%) for other purposes (Table 2). This situation reversed in 1976/77, during which period about 45 per cent of the borrowing was accounted for by capital expenditure, including *inter alia*, the purchase of land, livestock, machinery, and investment in irrigation development followed by consumption expenditure (28%), farming (22%) and others (6%). In the hills, borrowing for farming increased significantly from less than four per cent to about 14 per cent and the pre-eminence of capital expenditure gained more importance (43%) compared to consumption expenditure (27%).

8. Nepal Rastra Bank. *Agricultural Credit Survey*. Nepal, Kathmandu: NRB, 1980.

9. Nepal Rastra Bank. *Agricultural Credit Review Survey*. Nepal, Kathmandu: NRB, 1980.

Table 1: The Proportion of Borrowing Farm Families and the Size of Average Borrowing

(Amount in NR)

| | Proportion of Borrowing Farm Families (%) | | Average Borrowing per Farm Family | |
|---------|---|---------|-----------------------------------|---------|
| | 1969/70 | 1967/77 | 1969/70 | 1976/77 |
| Hills | 37 | 42 | 136 | 380 |
| Terai | 39 | 52 | 130 | 670 |
| Overall | 38 | 51 | 132 | 586 |

Source : Agricultural Credit Review Survey, Nepal Rastra Bank, 1980.

Table 2: Proportion of Average Borrowing Per Farm Family by Purpose

(%)

| Purpose | Overall | | Hills | | Terai | |
|-------------------------|---------|---------|---------|---------|---------|---------|
| | 1969/70 | 1976/77 | 1969/70 | 1976/77 | 1969/70 | 1976/77 |
| Farming Expenditure | 18 | 22 | 4 | 14 | 25 | 24 |
| Capital Expenditure | 33 | 45 | 42 | 52 | 29 | 43 |
| Consumption Expenditure | 44 | 28 | 49 | 34 | 42 | 27 |
| Others | 5 | 5 | 6 | 1 | 4 | 6 |

Source : Agricultural Credit Review Survey, Nepal Rastra Bank, 1980.

Source of Borrowing

The average amount borrowed, per farm family, was NR 897 in the hills and NR 1,221 in the Terai in the FY 1967/68. The respective figures were NR 383 and NRs 504 for the FY 1969/70 (Table 3). Out of the average borrowing of NR 383 in the hills during 1969/70, NR 20 or a little over five per cent was covered by institutional sources, most of which through Village Committees (3.7%) and cooperative societies (1%). Among non-institutional or private sources which had a virtual monopoly during the period, village money-lenders accounted for most (46%), almost equalled by friends and relatives, followed by professional money-lenders and landlords (1% each), and others (0.8%).

A significant improvement took place in the seven years following the first survey. ADB/N, which did not extend financing to the hill farmers during the FY 1969/70, contributed almost 23 per cent to the average debt of NR 897 in the hills, in the FY 1976/77. Commercial banks contributed almost six per cent and the cooperative societies provided about five per cent. Altogether, over 33 per cent of the total average borrowing farm families was provided through institutional sources. Among private sources, village money-lenders led the supply with the contribution of 36 per cent, followed by friends and relatives (21%). Whereas the proportion of these two sources decreased the role of agricultural traders, borrowing from landlords and professional money-lenders increased significantly.

Table 3: Size and Proportion of Average Borrowing by Source

(Amount in NR)

| Credit Agency | Hills | | | | Terai | | | |
|--------------------------------|------------|------------|------------|------------|------------|------------|-------------|------------|
| | 1969/70 | | 1976/77 | | 1969/79 | | 1976/77 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| <u>Institutional</u> | 20 | 5 | 297 | 33 | 264 | 52 | 532 | 44 |
| Cooperatives and Sajhas | 4 | 1 | 42 | 5 | 3 | 1 | 173 | 14 |
| Ward/Village Committees | 14 | 4 | - | - | 44 | 9 | - | - |
| Agricultural Development Bank | - | - | 203 | 23 | 19 | 4 | 237 | 22 |
| Land Reform Saving Corporation | - | - | - | - | 193 | 38 | - | - |
| Commercial Banks | 2 | 1 | 52 | 6 | 5 | 1 | 88 | 7 |
| <u>Private</u> | 363 | 95 | 600 | 67 | 240 | 48 | 689 | 56 |
| Village money-lenders | 176 | 46 | 327 | 36 | 123 | 24 | 245 | 20 |
| Professional money-lenders | 4 | 1 | 19 | 2 | 13 | 3 | 48 | 4 |
| Landlords | 4 | 1 | 25 | 3 | 26 | 5 | 30 | 2 |
| Agricultural Traders | - | - | 42 | 5 | 26 | 5 | 77 | 6 |
| Friends and Relatives | 176 | 46 | 187 | 21 | 9 | 270 | 22 | |
| Others | 3 | 1 | - | - | 5 | 1 | 19 | 2 |
| Total : | 383 | 100 | 897 | 100 | 504 | 100 | 1221 | 100 |

Source : Agricultural Credit Review Survey, Nepal Rastra Bank, 1980

In the *Terai*, institutional sources were already covering over half of the total average borrowing of NR 504 during the FY 1969/70. The LRSC contributed over 38 per cent, followed by Village Committees (9%), ADB/ (4%), and commercial banks (1%). In the following seven years the share of institutional credit went down, although the amount of credit provided more than doubled. ADB/N, during the FY 1976/77, when the LRSC was already merged with it, contributed only 22 per cent, followed by cooperative societies (14%), and commercial banks (7%). Among private sources the share of friends and relatives increased from nine to 22 per cent, whereas the share of village money-lenders decreased from 24 to 20 per cent. During this period, the overall share of private sources increased from 48 to 56 per cent and conversely the share of institutional sources decreased from 52 to 44 per cent in the *Terai*.

Extent and Issues of Indebtedness

About 65 per cent of the farm families in Nepal were found to be indebted during 1969/70. The proportion of indebted farm families was slightly higher in the hills (69%) compared to the *Terai* (63%). Seven years later the proportion of indebted farm families reduced slightly to 62 per cent and it was almost equal in the hills and the *Terai*. The average debt amount was much higher in the hills (NR 655) compared to the *Terai* (NR 304) during 1969/70, but, because of the high growth rate in the *Terai*, the situation reversed in the seven year period ending in the FY 1976/77. During this year, the average debt outstanding was reported to be NR 691 - 907 in the hills and NR 994 in the *Terai* (Table 4).

Table 4 : Proportion of Indebted Farm Families and the Size of Average Indebtedness.

| | Proportion of Indebted Farm Families | | Average Debt | |
|--------------|--------------------------------------|---------|--------------|---------|
| | % | % | NR | NR |
| | 1969/70 | 1967/77 | 1969/70 | 1976/77 |
| Hills | 69 | 61 | 655 | 691 |
| <i>Terai</i> | 63 | 63 | 304 | 994 |
| Overall | 65 | 62 | 419 | 907 |

Source : Agricultural Credit Review Survey, Nepal Rastra Bank, 1980.

Source of Indebtedness

During 1969/70, when the average indebtedness per farm family amounted to NR 938 in the hills, institutional sources accounted for less than four per cent of the loans taken. Village money-lenders provided had the highest amount (45%), followed by friends and relatives (44%), and professional money-lenders (4%). Within 7 years the situation changed impressively and

institutional sources accounted for over 26 per cent of the total average debt. At the sub-aggregate level ADB/N contributed most (17%), followed by commercial banks (6%), and cooperative societies (4%). Among private sources the share of friends and relatives decreased to less than 19 per cent, but the share of agricultural traders increased by almost 6 times and crossed five per cent (Table 5).

Table 5: Average Outstanding Debt by Source

(Amount in NR)

| Credit Agency | Hills | | | | Terai | | | |
|--------------------------------|------------|------------|-------------|------------|------------|------------|-------------|------------|
| | 1969/70 | | 1976/77 | | 1969/79 | | 1976/77 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Institutional | 33 | 4 | 301 | 26 | 270 | 45 | 748 | 45 |
| Cooperatives and Sajhas | 5 | 1 | 42 | 4 | 4 | 1 | 127 | 8 |
| Ward/Village Committees | 23 | 2 | 1 | 0 | 86 | 14 | 7 | 0 |
| Agricultural Development Bank | - | - | 194 | 17 | 19 | 3 | 514 | 31 |
| Land Reform Saving Corporation | - | - | - | - | 154 | 26 | - | - |
| Commercial Banks | 5 | 1 | 64 | 6 | 7 | 1 | 100 | 6 |
| Private | 905 | 96 | 854 | 74 | 334 | 55 | 904 | 55 |
| Village money-lenders | 425 | 45 | 495 | 43 | 161 | 27 | 323 | 20 |
| Professional money-lenders | 42 | 4 | 40 | 3 | 19 | 3 | 82 | 5 |
| Landlords | 5 | 1 | 41 | 4 | 29 | 5 | 30 | 2 |
| Agricultural Traders | 8 | 1 | 60 | 5 | 42 | 7 | 81 | 5 |
| Friends and Relatives | 419 | 45 | 218 | 19 | 77 | 13 | 368 | 22 |
| Others | 6 | 1 | - | - | 6 | 1 | 20 | 1 |
| Total : | 938 | 100 | 1155 | 100 | 604 | 100 | 1652 | 100 |

Source : Agricultural Credit Review Survey, Nepal Rastra Bank, 1980.

In the *Terai*, the contribution of institutional and non-institutional sources in the two time-frames remained stable at about 45 per cent from institutional sources and 55 per cent from non-institutional sources. However, significant changes could be noticed at the sub-aggregate level. During this period, the share of ADB/N increased from three to 31 per cent, whereas the share of Village Committees decreased from over 14 per cent to less than one per cent. Commercial banks reported impressive increases and these reached over six per cent. Among non-institutional sources, the village money-lenders' share dropped from 27 per cent to 20 per cent, but the share of friends and relatives increased from 13 per cent to 22 per cent. A significant drop in the share of landlords was also observed.