

INSTITUTIONAL CREDIT DISBURSEMENT IN THE HILLS IN COMPARISON TO THE TERAI

This section of the paper presents an analysis of the credit operations of the formal credit institutions in Nepal. In doing so, it presents a comparative analysis of the supply of institutional credit in the hills, vis-a-vis the *Terai*, so that patterns of institutional credit operations in the hills, against the background of aggregate operations, can be discerned. As the absolute figures *per se* will be irrelevant for comparative analysis, credit operations are analysed vis-a-vis other resource bases such as population, physical area, cultivable land, number of *Panchayats* cereal grain production, and input supplies such as fertilizer sales. For sub-aggregation purposes, the whole kingdom has been divided into eleven regions - five Development Regions further sub-divided into the hills and the *Terai* with the exception of the Central Region where the hills have been sub-divided again into the Kathmandu Valley itself and areas outside the Kathmandu Valley.

Basic Physical and Demographic Characteristics of the Hills and the Terai

In terms of physical area, the hills cover over 109,000 ha or 77 per cent of the total land area. Region-wise, the Mid-western Hills cover the most territories and alone account for 23 per cent of the total physical area (Table 6). Going to the Central Plains or *Terai* we find that it accounts for seven per cent of the total physical area or almost one-third of the whole Nepalese *Terai*. The distribution of the cultivable land does not match the physical area. The hills in total has only a little over half of the cultivable hectares. The Mid-western Hills account for only seven per cent of the total cultivable land, whereas the Eastern *Terai* accounts for 16 per cent of the cultivable land while comprising only five per cent of the physical area.

The population distribution more or less, varies according to the distribution of cultivable land. The hills in total accounted for 56 per cent of the total population in 1981, but, as there is a lower growth rate in population in the hills - largely explained by internal migration - this proportion went down to 53 in 1987. With this trend, persisting small discrepancies noticed now in the distribution of cultivable land and population between the hills and the *Terai* will be eliminated altogether within a few years. Region-wise, the Central Hills as a whole support more population than its share of cultivable land can absorb. This is largely explained by the presence of the Kathmandu Valley. There is a significant difference in the Eastern Hills which supports about 10 per cent of the population with 14 per cent of the cultivable land. Other regions show a remarkably balanced distribution. As a result, the total number of persons to cultivable land remains balance. On an average, one hectare of cultivable land supports 5.2 persons in the hills and 43 persons in the *Terai*. This ratio is lower in the Eastern Hills (3.57) followed by the Far-western *Terai* (3.64).

Because of the difference in the productivity of land resources, cereal grain production does not match the cultivable land. Overall, the hills produced only 39 per cent of the total cereal grain production during 1981, and this compares poorly with the 51 per cent share in cultivable area and 56 per cent of the population during the same year. As a result, per capita food grain production in the hills was about 111 Kg as against 225 Kg in the *Terai*.

Region-wise, all sub-regions in the hills reported a lower proportion of cereal grains compared to their share of population or cultivable land. The worst situation is presented by the Far-western Hills which produced only three per cent of the grains to support six per cent of the population. This was followed by the Western Hills (10% against 14%) and Central Hills (12% against 17%). Food production per capita, thus, was the lowest in the Far-western Hills (73 Kg), followed by the Western Hills (106 Kg), and closely followed by the Mid-western Hills (107 Kg).

Table 6: Basic Physical and Demographic Characteristic of the Hills and Terai

| Area | Physical Area 1981 (Km) ² | Cultivated Land 1981 ('000 ha) | Population 1987 (in '000) ³ | Cereal Grain Production 1981 (in '000 MT) |
|-------------------------------|--|--------------------------------------|--|--|
| A. Development Regions | | | | |
| Eastern | | | | |
| Hills | 28070 | 959.5 | 3704 | 4348 |
| Terai | 21000 | 445.6 | 1589 | 1683 |
| Central | | | | |
| Hills | 7070 | 513.9 | 2115 | 266 |
| Kath. Val. | 27760 | 862.4 | 4916 | 5591 |
| Outside Vall | 17700 | 384.1 | 2527 | 2785 |
| Terai | 760 | 71.9 | 767 | 868 |
| | 16940 | 312.2 | 1762 | 1916 |
| Western | | | | |
| Hills | 10060 | 478.3 | 2389 | 2807 |
| Terai | 27870 | 675.4 | 3136 | 3576 |
| | 22540 | 418.9 | 2176 | 2388 |
| Mid Western | | | | |
| Hills | 5330 | 256.5 | 959 | 1188 |
| Terai | 38650 | 413.1 | 1955 | 2256 |
| | 32770 | 233.7 | 1283 | 1402 |
| Far Western | | | | |
| Hills | 5880 | 179.4 | 672 | 854 |
| Terai | 19370 | 268.2 | 1312 | 1568 |
| | 4330 | 116.4 | 242 | 594 |
| B. Aggregate | | | | |
| Hills | 109410 | 1634.1 | 8463 | 9231 |
| Terai | 32670 | 1544.5 | 6560 | 8107 |
| Grand Total | 142080 | 3178.6 | 15022 | 17339 |
| | | | | 2409 |

Source : Nepal Agricultural Sector Strategy Study. Vol 2, Appendix 1.8, HMG/ADB.

Expansion of the Banking Network

Because of the mountainous nature of the country and the primitive stage of development of the transportation network, the access or inaccess of rural people to institutional credit is largely explained by the existence or non-existence of a banking branch within the village or in the neighbouring village. No amount of budget allocation of credit resources, or simplification of the procedures, or fixation of minimum quotas for a particular area, would be effective in enhancing the access of rural people to institutional credit in the absence of an outlet for a cluster of hamlets. Without this the transaction cost will always be prohibitively high and small loans, characteristic of the Nepalese credit market, cannot support the costs.

Expansion of ADB/N Outlets

The Branch Network

Until July 1973, ADB/N had only 29 branches (Table 7). Out of these, nine were in the hills and 20 in the *Terai*. Later the total number of branches increased significantly and reached 72 by 1977, 142 by 1982, and 212 by 1987. The rate of increase was much higher for the hills, as it increased from nine to 134, compared to 20 - 78 in the *Terai*. This difference in growth rate increased the share of the hills in the total. In 1973, 69 per cent of ADB/N branches were in the *Terai* and 31 per cent in the Hills. Within the next 14 years, the situation changed dramatically and by July 1987, 63 per cent of the branches were in the hills compared to 37 per cent in the *Terai*. This compares favourably with the population of 1987, when 53 per cent of it was reported to be in the hills.

Region-wise, in 1987, the hills had a significantly higher proportion of ADB/N branches compared to the population in the hills in the Eastern, Central, and Western Development Regions. It at least matches the population in the Mid-western and Far-western Hills. One added feature of the ADB/N branch network is the absence of any bias in favour of the Kathmandu Valley.

Table 8 presents some of the ratios related to ADB/N branches. In 1981, one ADB/N branch in the aggregate covered 107 thousand people - about the same in the hills and the *Terai*, however, within the following six years, the population covered by each branch reduced sharply to 68 thousand in the hills and it stagnated somewhat in the *Terai*. This reduced the average population covered by one branch to 82 thousand. Similarly, the physical area covered by each branch reduced from 1,008 to 670 km² during this period. A significant reduction in the physical area was seen in the hills (816 km² from 1,368) but it remained almost double the *Terai* average of 419 km². The highest physical coverage of 2,048 km² was seen in the Mid-western Hills and the lowest (95 km²) in the Kathmandu Valley.

A much more balanced coverage in terms of Village *Panchayats* can be observed with an average coverage of 19 Village *Panchayats* per branch, and this is about the same in the hills and the *Terai*. Most regions report 15 to 20 Village *Panchayats* per branch with the exception of the Far-western *Terai* (9) and the Mid-western Hills (29).

Small Farmers' Development Programme

The number of sub-projects under the Small Farmers' Development Project (SFDP), which began with 2 pilot projects in 1975, reached 15 by July 1977. It reached 54 by 1982 and 298 by

1987. In 1977 only two, or 13 per cent of all projects, were in the hills which changed to 31, or 57 per cent, in 1982. The higher growth rate in the hills persisted in the following years and the hills accounted for 185 (62%) projects against 113 (38%) in the *Terai*. Region-wise the representation in the hills largely balances with the population distribution except in the Central Hills where 16 per cent of the population has 26 per cent of the projects.

Table 7: Field Office Network of the ADB/N

| Area | Branch Network | | | | SFDP Network | | |
|-------------------------------|----------------|-----------|------------|------------|--------------|-----------|------------|
| | 1973 | 1977 | 1982 | 1987 | 1977 | 1982 | 1987 |
| A. Development Regions | | | | | | | |
| Eastern | | | | | | | |
| Hills | 7 | 17 | 34 | 51 | 3 | 15 | 52 |
| <i>Terai</i> | 2 | 10 | 17 | 31 | 0 | 9 | 24 |
| Central | | | | | | | |
| Hills | 9 | 19 | 46 | 68 | 8 | 17 | 125 |
| Kathmandu Valley | 3 | 12 | 23 | 39 | 2 | 10 | 77 |
| Outside Valley | 1 | 3 | 6 | 10 | 0 | 2 | 12 |
| <i>Terai</i> | 2 | 9 | 17 | 29 | 2 | 8 | 65 |
| | 6 | 7 | 23 | 29 | 6 | 7 | 48 |
| Western | | | | | | | |
| Hills | 7 | 17 | 29 | 49 | 2 | 12 | 56 |
| <i>Terai</i> | 3 | 12 | 19 | 35 | 0 | 6 | 39 |
| | 4 | 5 | 10 | 14 | 2 | 6 | 17 |
| Mid Western | | | | | | | |
| Hills | 4 | 12 | 19 | 24 | 1 | 9 | 41 |
| <i>Terai</i> | 1 | 9 | 13 | 16 | 0 | 6 | 26 |
| | 3 | 3 | 6 | 8 | 1 | 3 | 15 |
| Far Western | | | | | | | |
| Hills | 2 | 7 | 13 | 20 | 1 | 1 | 24 |
| <i>Terai</i> | 0 | 4 | 8 | 13 | 0 | 0 | 19 |
| | 2 | 3 | 5 | 7 | 1 | 1 | 5 |
| B. Aggregate | | | | | | | |
| Hills | 9 | 47 | 80 | 134 | 2 | 31 | 185 |
| <i>Terai</i> | 20 | 25 | 61 | 78 | 13 | 23 | 113 |
| Grand Total | 29 | 72 | 141 | 212 | 15 | 54 | 298 |

Source: Office Files of ADB/N.

Table 8: Ratio of ADB/N Offices to Population, Physical Area, and Village Panchayat.

| Area | Population/Branch | | Physical Area/Branch | | Number of Village Panchayats Pol/Branch | |
|-------------------------------|-------------------------------------|-------|----------------------------|------|---|------|
| | 1981 No. of Persons (in '000) | 1987 | 1981 (Km ²) | 1987 | 1981 Number | 1987 |
| A. Development Regions | | | | | | |
| Eastern | 109 | 85 | 826 | 550 | 27 | 18 |
| Hills | 93 | 54 | 1235 | 667 | 30 | 17 |
| Terai | 124 | 133 | 416 | 354 | 23 | 20 |
| Central | 107 | 82 | 603 | 408 | 27 | 18 |
| Hills | 100 | 714 | 770 | 454 | 28 | 16 |
| Kath. Val. | 128 | 868 | 127 | 76 | 21 | 18 |
| Outside Val. | 104 | 661 | 996 | 584 | 30 | 18 |
| Terai | 104 | 968 | 437 | 347 | 26 | 21 |
| Western | 108 | 730 | 961 | 569 | 31 | 18 |
| Hills | 115 | 682 | 119 | 644 | 35 | 19 |
| Terai | 959 | 848 | 588 | 381 | 24 | 17 |
| Mid Western | 103 | 940 | 2034 | 1610 | 31 | 24 |
| Hills | 987 | 876 | 2521 | 2048 | 36 | 29 |
| Terai | 112 | 107 | 980 | 735 | 20 | 15 |
| Far Western | 101 | 784 | 1518 | 987 | 29 | 19 |
| Hills | 111 | 789 | 1925 | 1185 | 39 | 24 |
| Terai | 859 | 849 | 866 | 619 | 12 | 9 |
| B. Aggregate | | | | | | |
| Hills | 106 | 689 | 1368 | 816 | 32 | 19 |
| Terai | 108 | 104 | 536 | 419 | 23 | 18 |
| Grand Total | 4538 | 10963 | 1008 | 670 | 28 | 19 |

Source: Office Files of ADB/N.

Expansion of the Commercial Banking Branches

The number of branches of the ADB/N in the Kingdom, increased from seven to 16 from 1950 to 1960. It increased five-fold within a decade and reached 80 by July 1970. Out of these 80, 45 were in the Terai, 20 in the hills outside Kathmandu, and 15 in the Kathmandu Valley.

Proportionately the hills, excluding the Valley, had only 25 per cent and the *Terai* had 56 per cent. The number of branches increased sharply in the following decade reaching 212 in 1977, 284 in 1982, and 206 in 1987 (Table 9). The growth rate remained higher for the hills, and the number had increased from 35 to 230 within this period as against 45 to 176 for the *Terai*. Even within the hills, the growth rate was higher for areas outside the Kathmandu Valley and so its share increased from 25 per cent in 1970 to 42 per cent in 1987. This compares with the 48 per cent share of the population inhabiting the hills outside the Kathmandu Valley. However, this discrepancy is explained more by the share of the Kathmandu Valley, which is 15 per cent compared to its share in the population of five per cent, rather than by the share of the *Terai* which is 43 per cent compared to its 47 per cent share in the population.

The Mid-western and Far-western Hill regions suffer also in terms of getting their share of commercial bank branches. The Mid-western Hills had only five per cent of these branches (against a population share of 6%) in 1987. As a result, population per branch remained higher in both regions compared to the aggregate. In the five years following 1981, the average population served by each branch decreased from 53 to 43 thousand and by 1987 it came down to 15 thousand for the Kathmandu Valley, 46 thousand for the *Terai*, and 49 thousand for the hills, excluding the Kathmandu Valley.

Credit Disbursement through Institutional Sources

By mid-July 1987, the total loans outstanding from ADB/N stood at about NR 2,225 million and those of commercial banks for the agricultural sector, under the IBP, at about NR 160 million. Cooperative societies also deal with agricultural credit but this is dependent upon the disbursement of ADB/N to them and follows the pattern of loans disbursed by ADB/N. Thus, this section analyses the credit operations of ADB/N and the commercial banks only.

Credit Disbursement through ADB/N

Total Disbursement

Aggregate Pattern: The total Credit disbursed by ADB/N was only NR 36 million during the FY 1972/73. After four years, in the FY 1976/77, the total credit disbursement reached to NR 226 million. Half of this amount went basically as working capital for fertilizer distribution to cooperative societies, 22 per cent for crop production, 16 per cent for farm mechanization/irrigation and nine per cent for livestock (Table 10). In the ensuing ten years, the volume of total loan disbursal increased by 168 per cent and reached 606 million during the FY 1986/87. The distribution of loans indicated that crop production accounted for a 30 per cent share followed by livestock (28%), agro-industry and marketing (25%), and farm mechanization and irrigation (mainly irrigation) (27%).

Share of the Hills in Total Disbursal: During 1972/73, the hills, excluding the Kathmandu Valley, accounted for only eight per cent of the total disbursal. In the following years, the situation improved in favour of the hills. The hills, excluding the Kathmandu Valley, accounted for 21 per cent of the total disbursement in the FY 1976/77, and 33 per cent during the FY 1986/87. Because the hills, excluding the Kathmandu Valley, accounted for 48 per cent of the population and 49 per cent of the cultivable land, those improvements do not seem to be adequate.

Table 9: Branch Network of Commercial Banks

| Area | Total No. of Branches | | | | Population/Branch | |
|-------------------------------|-----------------------|------------|------------|------------|----------------------------------|-----------|
| | 1970 | 1977 | 1982 | 1987 | 1981 No. of Persons (in '000) | 1986 |
| A. Development Regions | | | | | | |
| Eastern | 18 | 58 | 74 | 100 | 50 | 43 |
| Hills | 4 | 16 | 25 | 38 | 64 | 44 |
| Terai | 14 | 42 | 49 | 62 | 43 | 43 |
| Central | 39 | 88 | 115 | 158 | 43 | 35 |
| Hills | 22 | 52 | 72 | 99 | 35 | 28 |
| Kath. Val. | 15 | 35 | 45 | 59 | 17 | 15 |
| Outside Val. | 7 | 17 | 27 | 40 | 65 | 48 |
| Terai | 12 | 34 | 49 | 79 | 64 | 48 |
| Western | 12 | 34 | 49 | 79 | 64 | 45 |
| Hills | 6 | 22 | 32 | 54 | 68 | 44 |
| Terai | 6 | 12 | 17 | 25 | 56 | 48 |
| Mid Western | 9 | 20 | 25 | 40 | 78 | 56 |
| Hills | 3 | 12 | 12 | 22 | 107 | 64 |
| Terai | 6 | 8 | 13 | 18 | 52 | 47 |
| Far Western | 2 | 12 | 21 | 29 | 62 | 54 |
| Hills | 0 | 7 | 9 | 17 | 99 | 57 |
| Terai | 2 | 5 | 12 | 12 | 35 | 50 |
| B. Aggregate | | | | | | |
| Hills | 35 | 109 | 150 | 230 | 56 | 40 |
| Terai | 45 | 103 | 134 | 176 | 49 | 46 |
| Grand Total | 80 | 212 | 284 | 406 | 53 | 43 |

Source : Nepal Rastra Bank, Quarterly Economic Bulletin, November, 1987.

Note : The figures for each year were taken in mid-July, i.e. the end of the Nepalese fiscal year.

Table 10: Loan Disbursement by ADB/N - During the FY 1976/77

(in '000 Rs)

| Area | Crop Produ- ction | Irrigation Farm - mechan isation | Livestock | Ag-Ind. Market & W-House | Horticulture- Tea | Total |
|-------------------------------|-------------------------|---|--------------|--------------------------------|----------------------|---------------|
| A. Development Regions | | | | | | |
| Eastern | 10746 | 10924 | 3611 | 11578 | 5144 | 42003 |
| Hills | 2390 | 959 | 1920 | 1387 | 1549 | 8209 |
| Teraí | 8356 | 9965 | 1691 | 10191 | 3590 | 33799 |
| Central | 26910 | 11060 | 9567 | 77673 | 385 | 125595 |
| Hills | 6676 | 1760 | 8413 | 61346 | 348 | 78543 |
| Kath. Val. | 3277 | 596 | 3933 | 54978 | 33 | 62817 |
| Outside Val. | 3399 | 1164 | 4480 | 6368 | 315 | 15726 |
| Teraí | 20234 | 9300 | 1154 | 16327 | 37 | 47052 |
| Western | 7963 | 8213 | 4533 | 11514 | 1479 | 33702 |
| Hills | 3895 | 2277 | 4105 | 6472 | 1445 | 18194 |
| Teraí | 4068 | 5936 | 428 | 5042 | 34 | 15508 |
| Mid Western | 2595 | 3492 | 1443 | 4056 | 493 | 12079 |
| Hills | 582 | 502 | 1801 | 757 | 493 | 3635 |
| Teraí | 2013 | 2990 | 142 | 3299 | 0 | 8444 |
| Far Western | 1749 | 3069 | 859 | 6262 | 386 | 12325 |
| Hills | 522 | 556 | 600 | 606 | 370 | 2654 |
| Teraí | 1227 | 2513 | 259 | 5656 | 16 | 9671 |
| B. Aggregate | | | | | | |
| Hills | 14065 | 6054 | 16339 | 70568 | 4205 | 111231 |
| Teraí | 35898 | 30704 | 3674 | 40515 | 3682 | 114473 |
| Grand Total | 49963 | 36758 | 20013 | 111083 | 7887 | 225704 |

Source : Office files of ADB/N.

If we look at the FY 1986/87 and the disbursements in various sub-regions, inequitable imbalances in the population and credit distribution can be seen in the Far-western Hills (6% of the population getting 2% of the credit) and the Mid-western Hills (8% against 3%). The most favourable distribution is to be seen in the Central *Terai* (16% of the population getting 24 % of the credit), followed by the Eastern Hills (7% getting 10%). No significant favour can be seen for the Kathmandu Valley in that year.

Activities Financed in the Hills: The Livestock sector in general, has consumed relatively more credit in the hills. Out of the total disbursement for livestock, the hills (excluding the Kathmandu Valley) received as much as 62 per cent during the FY 1986/87, but dropped and stabilised to about 40 per cent afterwards. Crop production has typically consumed about 25 per cent and irrigation and farm mechanization about 15 per cent. The share in total horticultural loans is fluctuating and during the FY 1986/87 it was reported to be 50 per cent.

Out of the total disbursement of NR 199 million in the hills (excluding the Kathmandu Valley) during the FY 1986/87, 68 million (34%) went for livestock, 53 million (27%) for agro-industry and marketing, 49 million (25%) for crop production, and 14 million (7%) each for farm mechanization/irrigation and horticulture (Table 11).

On a per capita basis, ADB/N credit increased from NR 14 in 1981 to 35 in 1987. For the FY 1986/87, it was reported to be NR 41 for the Kathmandu Valley, 24 in the hills outside the Valley, and NR 46 in the *Terai*. On a regional basis, the lowest (NP 12) was for the Mid-western Hills, followed by the Far-western Hills (NR 14). A similar pattern can also be seen in credit disbursement per cultivable hectare (Table 12).

Disbursement through SFDP.

Aggregate Pattern and Share of the Hills: During the FY 1981/82, NR 12 million was disbursed through the SFDP. Out of this amount NR five million or 42 per cent was for the hills. Loan disbursements were nil for the Far-western Hills and very limited for the Mid-western Hills (Table 13). The total disbursement through SFDP rose substantially and reached almost 100 million during the FY 1986/87 (Table 14). The share of the hills increased during this period and reached 48 per cent of the total. Substantial improvements in disbursement were achieved for the Mid-western and Far-western Hills; their disbursements reported to be six and three per cent of the total disbursement respectively. The Central *Terai* was still leading during the year with a 20 per cent share and the Eastern *Terai* followed with a 15 per cent share (Table 15).

Activities Financed: Out of the total disbursements through SFDP, 40 per cent went for livestock followed by crop production (24%), farm mechanization/irrigation (18%), agro-industry and marketing (15%), and horticulture (3%). A slightly higher proportion for livestock (45%) and horticulture (15%) and a reduced proportion for farm mechanization/irrigation (11%) is seen in the hills outside the Kathmandu Valley.

Loan Operations of the Commercial Banks

Total Credit Operations. The total loans outstanding from commercial banks stood at 3.9 billion in July 1981, and this increased to 8.2 billion in April 1986. Out of the total credit, the *Terai* accounted for 43 per cent in 1981, and this decreased to 30 per cent in April 1986. Thus, the hills in total accounted for 57 and 62 per cent of the total credit supplied by the commercial banks (Table 15) in 1981 and 1986, respectively.

Note: The figures for each year were taken in mid-July, i.e. the end of the Nepalese fiscal year.

Table 11: Loan Disbursement by ADB/N During the FY 1986/87

(Amount in 000 Rs.)

| Area | Crop Production | Irrigation Farm Mech. | Livestock | Ag-Ind. Market & W-House. | Horticul- ture-Tea | Total |
|-----------------------------------|--------------------|--------------------------|---------------|---------------------------------|-----------------------|---------------|
| A. Development Regions | | | | | | |
| Eastern | 51216 | 20679 | 35153 | 30005 | 7459 | 144512 |
| Hills | 15609 | 3738 | 11573 | 7152 | 3205 | 41277 |
| Terai | 35607 | 16941 | 23580 | 22853 | 4254 | 103235 |
| Central | 68628 | 33993 | 69627 | 61909 | 5710 | 239867 |
| Hills | 16884 | 4045 | 39817 | 29946 | 4623 | 95315 |
| Kath. Val. | 1817 | 728 | 18584 | 14479 | 95 | 35703 |
| Outside | | | | | | |
| Val. | 15067 | 3317 | 21233 | 15467 | 4528 | 59612 |
| Terai | 51744 | 29948 | 29810 | 31963 | 1087 | 144552 |
| Western | 40878 | 17739 | 34442 | 36226 | 5001 | 134286 |
| Hills | 12851 | 4050 | 24068 | 22275 | 4368 | 67612 |
| Terai | 28027 | 13689 | 10374 | 13951 | 633 | 66674 |
| Mid Western | 8667 | 20059 | 20387 | 15640 | 6879 | 47656 |
| Hills | 2608 | 1792 | 7626 | 4248 | 927 | 17237 |
| Terai | 6059 | 18267 | 12761 | 11356 | 5952 | 30419 |
| Far Western | 13440 | 10097 | 7405 | 7175 | 1585 | 39708 |
| Hills | 3202 | 1245 | 3728 | 4028 | 1250 | 13453 |
| Terai | 10244 | 8852 | 3677 | 3142 | 335 | 26255 |
| B. Aggregate | | | | | | |
| Hills | 51154 | 14870 | 86812 | 67685 | 14373 | 234894 |
| Terai | 131681 | 87697 | 80202 | 83270 | 12261 | 371135 |
| Grand Total | 182835 | 102567 | 167014 | 150955 | 26634 | 606029 |

Source : Office files of ADB/N.

Table 12 : Ratio of ADB/N Credit to Population and Cultivable Land

(In Rupees)

| Area | Credit/Capita | | Credit/Cultivable Hectare | |
|-------------------------------|---------------|-----------|---------------------------|------------|
| | 1981 | 1987 | 1981 | 1987 |
| A. Development Regions | | | | |
| Eastern | 11 | 33 | 42 | 151 |
| Hills | 8 | 25 | 28 | 93 |
| Terai | 13 | 39 | 54 | 201 |
| Central | 25 | 43 | 140 | 278 |
| Hills | 21 | 34 | 135 | 248 |
| Kathmandu Valley | 33 | 41 | 347 | 497 |
| Outside Valley | 15 | 31 | 86 | 191 |
| Terai | 29 | 52 | 144 | 302 |
| Western | 11 | 38 | 53 | 199 |
| Hills | 8 | 28 | 39 | 161 |
| Terai | 20 | 56 | 75 | 260 |
| Mid Western | 6 | 21 | 27 | 115 |
| Hills | 3 | 12 | 18 | 74 |
| Terai | 10 | 36 | 38 | 170 |
| Far Western | 5 | 25 | 25 | 148 |
| Hills | 2 | 14 | 13 | 89 |
| Terai | 11 | 44 | 40 | 226 |
| B. Aggregate | | | | |
| Hills | 10 | 25 | 53 | 144 |
| Terai | 19 | 46 | 83 | 240 |
| Grand Total | 14 | 35 | 67 | 191 |

Source : Office files of ADB/N

Table 13 : Loan Disbursements through, SFDP - FY 1981/82
(Amount in '000 Rs.)

| Area | Crop Production | Irrigation Farm Mech. | Livestock | Ag-Ind. Market & W-House. | Horticul- ture-Tea | Total |
|-------------------------------|--------------------|--------------------------|-------------|---------------------------------|-----------------------|-------------|
| A. Development Regions | | | | | | |
| Eastern | 705 | 801 | 1279 | 300 | 59 | 3144 |
| Hills | 170 | 191 | 580 | 71 | 8 | 1026 |
| Terai | 535 | 610 | 693 | 229 | 51 | 2118 |
| Central | 753 | 857 | 2344 | 274 | 129 | 4357 |
| Hills | 482 | 320 | 1485 | 174 | 121 | 2582 |
| Kath. Val. | 71 | 6 | 94 | 19 | 0 | 190 |
| Outside Val. | 411 | 314 | 1391 | 155 | 121 | 2392 |
| Terai | 271 | 537 | 859 | 100 | 8 | 1775 |
| Western | 396 | 760 | 1876 | 642 | 63 | 3737 |
| Hills | 99 | 79 | 644 | 256 | 42 | 1120 |
| Terai | 297 | 681 | 1232 | 386 | 21 | 2617 |
| Mid Western | 120 | 475 | 448 | 55 | 22 | 1120 |
| Hills | 46 | 144 | 273 | 25 | 18 | 506 |
| Terai | 74 | 331 | 175 | 30 | 4 | 614 |
| Far Western | 13 | 47 | 48 | 1 | 0 | 109 |
| Hills | 0 | 0 | 0 | 0 | 0 | 0 |
| Terai | 13 | 47 | 48 | 1 | 0 | 109 |
| B. Aggregate | | | | | | |
| Hills | 797 | 734 | 2988 | 526 | 189 | 5234 |
| Terai | 1190 | 2206 | 3007 | 746 | 84 | 7233 |
| Grand Total | 1987 | 2940 | 5995 | 1272 | 273 | 1246 |

Source : Office files of ADB/N

Table 14 : Loan Disbursements through SFDP - FY 1986/87
(Amount in 000 Rs.)

| Area | Crop Production | Irrigation Farm Mech. | Livestock | Ag-Ind. Market & W-House | Horticul- ture-Tea | Total |
|-------------------------------|--------------------|--------------------------|--------------|--------------------------------|-----------------------|--------------|
| A. Development Regions | | | | | | |
| Eastern | 5744 | 4091 | 7558 | 2348 | 486 | 20227 |
| Hills | 1585 | 803 | 2348 | 776 | 198 | 5710 |
| Terai | 4195 | 803 | 2348 | 776 | 198 | 5710 |
| Central | 9905 | 6557 | 16297 | 6810 | 1300 | 40869 |
| Hills | 5501 | 1845 | 9853 | 3329 | 916 | 2144 |
| Kath. Val. | 171 | 33 | 1516 | 166 | 33 | 1919 |
| Outside Val. | 5330 | 1812 | 8337 | 3163 | 883 | 19525 |
| Terai | 4404 | 4712 | 6444 | 3481 | 384 | 19425 |
| Western | 4524 | 2860 | 8835 | 3886 | 891 | 20996 |
| Hills | 1517 | 891 | 6009 | 2605 | 661 | 11683 |
| Terai | 3007 | 1969 | 2825 | 1281 | 230 | 9313 |
| Mid Western | 2592 | 3379 | 4730 | 1482 | 444 | 12627 |
| Hills | 862 | 905 | 2771 | 920 | 284 | 5742 |
| Terai | 1730 | 2474 | 1959 | 562 | 160 | 6885 |
| Far Western | 711 | 970 | 1868 | 694 | 251 | 4494 |
| Hills | 407 | 449 | 1037 | 545 | 231 | 2669 |
| Terai | 304 | 521 | 831 | 149 | 20 | 1825 |
| B. Aggregate | | | | | | |
| Hills | 9872 | 4893 | 22018 | 8175 | 2290 | 47248 |
| Terai | 13604 | 12964 | 17270 | 7045 | 1082 | 51965 |
| Grand Total | 23476 | 17857 | 39288 | 15200 | 3372 | 99213 |

Source : Office files of ADB/N

Table 15: Total and Sectoral Credit Supplied by the Commercial Banks

| Area | Total Credit | | Total Private Sector Outstanding Credit | | Total Agricultural Sector Outst. Credit | |
|-------------------------------|--------------|-------------|---|---------------|---|---------------|
| | July-81 | April-86 | July-81 | April-86 | July-81 | April-86 |
| A. Development Regions | | | | | | |
| Eastern | 826 | 1620 | 22136 | 93890 | 8320 | 19227 |
| Hills | 59 | 129 | 2524 | 20315 | 1124 | 9493 |
| Terai | 767 | 1492 | 19612 | 73575 | 7196 | 9734 |
| Central | 2532 | 5512 | 117671 | 301169 | 48508 | 112949 |
| Hills | 1972 | 4493 | 91754 | 256529 | 41014 | 104675 |
| Kathmandu Valley | 1855 | 3923 | 81333 | 225060 | 36882 | 95972 |
| Outside Valley | 118 | 570 | 10421 | 81469 | 4182 | 8703 |
| Terai | 560 | 1019 | 25917 | 44640 | 7494 | 9274 |
| Western | 259 | 624 | 13260 | 104333 | 3202 | 10297 |
| Hills | 158 | 362 | 7813 | 49157 | 1745 | 5188 |
| Terai | 102 | 262 | 5447 | 55176 | 1457 | 5109 |
| Mid Western | 156 | 199 | 8060 | 18405 | 6359 | 6232 |
| Hills | 23 | 53 | 1248 | 4983 | 523 | 1743 |
| Terai | 133 | 146 | 6812 | 13422 | 5836 | 5109 |
| Far Western | 163 | 271 | 5013 | 10783 | 940 | 3800 |
| Hills | 12 | 31 | 1898 | 3047 | 415 | 1191 |
| Terai | 151 | 240 | 3115 | 7736 | 525 | 2699 |
| B. Aggregate | | | | | | |
| Hills | 2224 | 5068 | 105237 | 334031 | 44821 | 122200 |
| Terai | 1712 | 3158 | 60903 | 194549 | 22508 | 30305 |
| Grand Total | 3935 | 8226 | 166140 | 528580 | 67329 | 152505 |

Source: Nepal Rastra Bank, Commercial Banking Statistics, November, 1987.

But since a highly disproportionate amount of credit was consumed by the Kathmandu Valley (47 and 48% in 1981 and 1986, respectively), the hills outside the Kathmandu Valley accounted for only nine and 14 per cent of the total credit outstanding in 1981 and 1987, respectively. This has to be compared with this area's share in population of 51 and 48 per cent. Region-wise, the shares of the Far-western and the Mid-western Hills were negligible in all types of credit. In total credit, even a relatively more developed area such as the Eastern Hills had a negligible share. As a result, credit per capita remained low in these regions at NR 32 in the Far-western Hills, NR 38 in the Mid-western Hills, and NR 76 in the Eastern Hills. Credit was the highest for the Kathmandu Valley with NR 4,518 and the lowest for the hills outside the Kathmandu Valley (NR 137).

Priority and Agricultural Sector Credit. Out of the total credit outstanding, commercial banks reported 334 million as outstanding for the priority sector and 122 million for the agricultural sector in April 1986. Out of this amount the hills outside the Kathmandu Valley accounted for only 21 per cent in priority sector credit and 17 per cent in agricultural sector credit. Kathmandu Valley accounted for 43 and 63 per cent and the *Terai* accounted for 37 and 20 per cent in the priority and agricultural sectors respectively. On a per capita basis, the credit for the priority and agricultural sectors was negligible in all areas outside the Kathmandu Valley.

Credit-Deposit Ratio. Ironically, the hills in general generated more deposits than the credit they received. As a result, the credit/deposit ratio in the hills stood at only 70 per cent in April 1986, down from 79 per cent in 1981. The ratio for these years stood at 145 and 134 per cent in the *Terai* - implying absorption of more credit than the generation of deposits. This ratio was lowest for the Far-western Hills (45%) and the Mid-western Hills (60%) in 1986 (Table 16).

Overall Pattern and Factors of Institutional Credit Operations in the Hills

Overall Pattern

The overall pattern of loans disbursed through ADB/N in the hills over time has been as follows.

- o ADB/N has substantially expanded its branches and the SFDP network in the hills during the last 15 years - more so in the last five years. This has helped to enhance the accessibility of the population in the hills to ADB/N credit outlets.
- o The share in the total disbursement of the hills has remained low compared either to its share in the population or to cultivable land. An increasing share of the hills in the total disbursement has, however, been a persistent trend.
- o The hills have a higher share in the disbursements for livestock loans and a lower share for irrigation.

The overall pattern of the loan operations of the two State-owned commercial banks has been as follows.

- o The share of credit, either for the agricultural or the priority sector, which are activities suitable for rural areas, has been very limited compared to the total credit operations of the commercial banks.

Table 16: Credit Available from Commercial Banks (1981 and 1986) on a Per Capita Basis (Deposit and Sectorwise).

| Area | Credit Capita | | Credit/Deposit | | Priority Sector Credit/Capita | | Agricultural Sector Credit/Capita | |
|-------------------------------|---------------|------------|----------------|-----------|-------------------------------|-----------|-----------------------------------|----------|
| | NR 1981 | NR 1986 | 1981 | 1986 | 1981 | 1986 | 1981 | 1986 |
| A. Development Regions | | | | | | | | |
| Eastern | 223 | 373 | 164 | 167 | 6 | 22 | 2 | 4 |
| Hills | 37 | 76 | 62 | 79 | 2 | 12 | 1 | 6 |
| Terai | 362 | 560 | 187 | 185 | 9 | 28 | 3 | 4 |
| Central | 515 | 986 | 91 | 76 | 24 | 54 | 10 | 20 |
| Hills | 780 | 1613 | 83 | 70 | 36 | 92 | 16 | 38 |
| Kathmandu Valley | 2419 | 4518 | 84 | 64 | 106 | 259 | 48 | 111 |
| Outside Valley | 67 | 297 | 77 | 203 | 6 | 16 | 3 | 3 |
| Terai | 234 | 363 | 133 | 126 | 11 | 16 | 3 | 3 |
| Western | 83 | 175 | 67 | 67 | 4 | 29 | 1 | 3 |
| Hills | 72 | 152 | 69 | 67 | 4 | 21 | 1 | 2 |
| Terai | 106 | 220 | 64 | 67 | 6 | 46 | 2 | 4 |
| Mid Western | 80 | 88 | 86 | 60 | 4 | 8 | 3 | 3 |
| Hills | 18 | 38 | 40 | 60 | 1 | 4 | 0 | 1 |
| Terai | 197 | 171 | 108 | 59 | 10 | 16 | 9 | 5 |
| Far Western | 124 | 173 | 141 | 150 | 4 | 7 | 1 | 2 |
| Hills | 13 | 32 | 28 | 45 | 2 | 3 | 0 | 1 |
| Terai | 356 | 404 | 208 | 214 | 7 | 13 | 1 | 5 |
| B. Aggregate | | | | | | | | |
| Hills | 263 | 549 | 70 | 79 | 12 | 36 | 5 | 13 |
| Terai | 261 | 390 | 145 | 134 | 9 | 24 | 3 | 4 |
| Grand Total | 262 | 474 | 99 | 85 | 11 | 30 | 4 | 9 |

Source: Nepal Rastra Bank, Commercial Banking Statistics, November, 1987.

- o The hills, excluding the Kathmandu Valley, has a very limited share in the total debt for either the priority or agricultural sector. It has been concentrated disproportionately in the Kathmandu Valley.
- o The hills, in general, have a lower share in the total credit compared to their contribution to total deposits. Thus, the flow of capital from the Hills to the Terai has been a general trend over time.

A number of factors, both internal and external to the banking institution, explain the lower share of the hills in institutional credit. Among internal factors, the financial viability of credit operations in the hills is most important. The cost of maintaining personnel in the hills is higher due to various types of allowances related to the remoteness of the area. Similarly, the cost of mobilization, incurred as travelling and daily allowances, is also higher. In contrast, the average loan size and the volume of business are smaller. As a result, many branches in the hills are a financial drain. As an example, all the 28 ADB/N branches, losing chronically in the last three years, beginning in 1985/86, are in the hills and most of them are located in the higher regions.

Branches in the hills also entail a higher cost of supervision and pose difficulties in providing support in terms of logistics. They are inaccessible from the capital city during several months of the year and staff deployment is almost always a problem.

Among factors external to the institution, the lack of income generating activities appropriate for the hills is the most serious problem. Limited infrastructural development hinders both the input supply and output marketing services. For example, out of the total irrigated area of 198,000 ha, until the end of the Fifth Plan (1975-1980), less than 18,000 ha were in the hills. The Seventh Plan targeted an increase in irrigation facilities of 236,000 additional hectares, but only about 24 per cent of these were to be in the hills¹⁰. This situation severely restricts the adoption of irrigation-biased improved technologies and in turn the working capital loans for crop production.

The hills are in a disadvantageous position, not only in institutional credit but also in receiving other production inputs. As an example, the fertilizer sales' pattern in the Kingdom (Table 17) indicated that during the FY 1976/77, the hills, excluding the Kathmandu Valley, accounted for 5,000 MT or about 13 per cent of the total fertiliser sales. Within the next 10 years, this had increased impressively and reached 24,000 MT during 1985/86. However, its share in the total is only about 24 per cent. This has to be compared with its share of 49 per cent in the cultivable area.

This situation is again rooted in the limited level of transportation facilities in the hills, where most of the transportation is done either by human beings or by mules. This results in a prohibitively high cost of transportation. It not only affects the provision of modern inputs but also the marketing of output. Thus, any grand-scale development programmes in the hills are out of the question.

10.HMG, National Planning Commission, *Sataun Yojana* (Seventh Plan), pp 406-413.

Table 17 : Fertiliser Sales of the Agricultural Inputs' Corporation

| Area | Fertiliser Sales | | | |
|-------------------------------|------------------|---------------|----------------|------------|
| | Absolute Sales | | Relative Share | |
| | 1976/77 | 1985/86 | 1976/77 | 1985/86 |
| | M. TON | | PER CENT | |
| A. Development Regions | | | | |
| Eastern | 4186 | 14508 | 11 | 14 |
| Hills | 776 | 2220 | 2 | 2 |
| Terai | 3410 | 12288 | 9 | 12 |
| Central | 26086 | 62985 | 69 | 62 |
| Hills | 16622 | 30852 | 44 | 30 |
| Kath. Val. | 14412 | 14984 | 38 | 15 |
| Outside. Val. | 2210 | 15868 | 6 | 16 |
| Terai | 9464 | 32133 | 25 | 31 |
| Western | 5472 | 18099 | 14 | 18 |
| Hills | 1680 | 4701 | 4 | 5 |
| Terai | 3792 | 13398 | 10 | 13 |
| Mid Western | 1261 | 4305 | 3 | 4 |
| Hills | 197 | 923 | 1 | 1 |
| Terai | 1063 | 3382 | 3 | 3 |
| Far Western | 837 | 2210 | 2 | 2 |
| Hills | 146 | 726 | 0 | 1 |
| Terai | 691 | 1484 | 2 | 1 |
| B. Aggregate | | | | |
| HILLS | 19422 | 39422 | 51 | 39 |
| TERAI | 18421 | 62685 | 49 | 61 |
| Grand Total | 37842 | 102107 | 100 | 100 |