RECOMMENDED CREDIT POLICY FOR THE NEPALESE HILLS

Credit Programming and Technology

One of the fundamental questions raised in relation to agricultural and rural credit is whether the activities to be financed by the credit should be programmed by the credit institutions or not? A related question is should the credit institutions limit themselves to financial mediation and forget technology dissemination or adoption ? One study done in Columbia suggests that there is no close relationship between the amount loaned for different seasonal crops and the area planted or the production of these crops[13]. The argument centres around the term 'fungibility' which implies that credit borrowers devote their own resources to areas other than the designated activities which otherwise could have been devoted to these designated activities.

The argument for simple "financial intermediation", through an agricultural credit institution, is basically inspired by the concept of a "functional specialization" for the credit institutions. It also reflects the self-interests of the credit institutions as it limits the scope of the credit operation and significantly reduces the overhead costs.

The arguments in favour of limiting the scope of credit operations may have empirical validity in certain contexts and theoretical rigour for argument's sake. But these facts should not overwhelm the credit policy for the Nepalese Hills. Credit programming, in terms of activities' finances, is a meaningful exercise, especially when activities selected match both the ecological and immediate economic considerations. It puts some burden of supervision, on the part of the credit institution, but it pays off in terms of the physical creation of capital for income-generating activities. In the absence of effective credit programming and supervision, it might be possible that the institutional credit finances the gradual migration of the population from the hills to the *Terai*. Similarly, emphasis on the transfer of appropriate technology along with the flow of credit has some distinct advantages. Firstly, as we have seen, credit institutions have a fairly widespread representation in the hills and so add significantly to the other line agency outlets. Secondly, not all income-generating activities enjoy government extension services. Examples in Nepal include energy development, food processing, etc. Thus, credit institutions, in some cases, are bound to disseminate appropriate technology for the development of a particular sector.

In sum, institutional agricultural credit should be tied to the selection and dissemination of appropriate technology and the availability of critical inputs. Credit institutions should not hesitate to intervene in the selective process for technology adaptation and dissemination and provision of critical inputs. This policy has always distinguished ADB/N from most of the other financial institutions. Selective intervention through ADB/N takes various forms. It procures critical inputs from international markets, maintains appropriate technology research and dissemination centres, operates training centres to impart skills to the farmers, and retains a farmers communications' group. Its rank of credit officers is filled by agricultural graduates and its engineering services are expanding.

A typical settlement in the rural areas in the hills starts at 600-900 m.a.s.l. and may go up to 2,600 - 3,300 m. In other words, altitudinal variation is high in the Nepalese Hills. As a result, micro-climatic zones abound. Its implications are many. Firstly, any grand-scale product

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13. Vogel, Robert C. and Larson, Donald W. "Illusion and Reality in Allocating Agricultural Credit : The Example of Columbia", in Adams, Dale W. et al. (eds), *Undermining Rural Development with Cheap Credit.* , Boulder and London: Westview Press 1984.

specialization is ruled out, but at the same time, this allows for the potential of exchanging products within the village. This latter situation becomes attractive in the context of the primitive state of development of transportation facilities. Thus, financing should be made available for diverse economic activities in the hills, so as to match them with climatic variation. Where transportation facilities are available and a specific micro-climatic zone is bigger (such as a long stretch of river valley), financing may be made available for specific products.

Institutional and Policy Aspects

Provision of Community Level Services

Agricultural credit operations in some hill areas suffer from lack of general awareness of the local population. This may require a provision for adult literacy programmes. Similarly, the community assets may have depleted extensively and may not have the capacity to support some economic activities. For example, if forest resources have depleted extensively, livestock raising may not be sustainable. In other cases, income-generating activities may be expanded only with the participation of the community as a whole; as in the case of the development of irrigation schemes.

Our experience in the SFDP has shown that these activities are not costly, and are often are within the reach of the local population, although they are hindered by the lack of organization at the community level. Creation of a well- structured group often generates the capability of undertaking these activities with limited external support. This support for organizing farmers into groups, with the objective of building their 'receiving mechanism' is, of course, outside the purview of conventional banking practices. However, if credit operations are to be made successful, especially in depressed areas, this intervention becomes a must.

Incorporation of the Savings' Mobilization Programme

Rural financial projects in low income countries have continued to stress loans for agriculture while neglecting 'saving mobilization' in rural areas[14]. The assumption behind the policy is that the poor are incapable of generating savings. While it might be true that the poor in rural areas may not have deposit accounts in the banks, nevertheless, they save. Their savings are mostly in the form of tin-roofs for their houses, increased numbers of livestock or an increased number of metal utensils in the house with a re-sale value. This may even be in the form of gold or silver ornaments.

Empirical evidence from the SFDP operation shows that small farmers have a strong tendency to save. No survey has yet been conducted to assess the savings in the form of real assets, but savings in monetary form reached NR 6 million under the SFDP. This amount has the tendency to have high growth rate. It has also been seen that women are more inclined to save than men.

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14. Vogel, Robert C., "Saving Mobilization : The Forgotten Half of Rural Finance", in Adams, Dale w. et al., Ibid, pp 248-265.