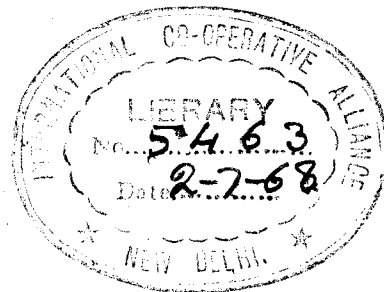




PANCHAYAT, COOPERATIVE CREDIT AND MARKETING IN NEPAL

Contents

	<u>Page No.</u>
Third Five Year Plan : Cooperative Development	1
Village Development Work	16
Some Effects of Recent Change in Rural Nepal	18
Survey of Agricultural Credit and marketing Cooperative in Nepal : Structure, Operation and Problems and Structural and other Inter-relationships between them	30
A Suggested Agricultural Credit Plan and Recommendations for Strengthening Cooperative Credit Societies for Nepal	57
The Panchayat System and Self-help Development	96
The Cooperative and Agricultural Credit Programmes in Nepal and their role in Economic Development by Russell B. Gregg	126
Supervised Agricultural Credit and its relation to land reform in Nepal	142



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NEP

HIS MAJESTY'S GOVERNMENT
DEPARTMENT FOR COOPERATIVES

3rd
FIVE YEAR PLAN
COOPERATIVE DEVELOPMENT

BACKGROUND

With the objective of mobilizing the scattered manpower and the meagre capital resources of the country and to thereby strengthen the rural economy of Nepal on cooperative lines, the Department for Cooperatives was established in 1954 for initiating the cooperative movement. In 1956 the Department organized the first cooperative credit societies for the landless persons in Chitwan under the Rapti Valley multi-purpose development plan and made credit available to these rehabilitated people at reasonable terms and rates of interest. Gradually the organizing of cooperative societies in other districts was taken up. The Department again concentrated on training personnel and acquainting the villagers with basic concepts of cooperation. The objectives, in the early years, were to assist with the formation of cooperative societies based upon self-help and mutual aid for the economic development of rural people. Thus, by the end of the last 3-Year Plan period, a total of 1109 primary cooperative societies (credit, multi-purpose, consumer, cottage industry etc.), 2 district level consumer's cooperatives, and 14 district cooperative marketing and credit unions had been organized. The problems encountered were: (1) the activities of the Cooperative Department were not effectively coordinated with the activities of other concerned organizations; (2) lack of adequately trained personnel to staff the Department; (3) inadequate communications made field operations slow and difficult; (4) inadequate loan capital was available and therefore the needs of small societies for furthering their development have not been met. In this 5-Year Plan

efforts will be concentrated on the strengthening of present societies rather than on continued numerical expansion. The old, as well as new societies, will be reorganized in a planned manner and made active under the land reform program. This will go a long way toward strengthening the economic sector of the Panchayat system.

Efforts will be made to bring about complete coordination between the land reform program and the cooperative movement. Along with land reform, the Department will try to organize coops in each village Panchayat and make all efforts to provide farmers with necessary credit, marketing facilities, improved seed, fertilizer, insecticides, fungicides, consumers' goods, construction of irrigation canals and storage facilities. Considering the availability of trained personnel and loan capital, marketing, consumer and credit societies will be organized accordingly. Societies organized under the land reform program will be responsible for the compulsory savings scheme and they will also assume the responsibilities of the Ward Committee. Cooperative farming schemes will be introduced in some areas on an experimental basis. Consumer's stores and cottage industries along cooperative lines will also be given due attention.

The Department, in the plan period, will go ahead with a training program to meet the dearth of trained personnel. The success of the cooperative movement depends entirely on its workers; therefore training programs of different durations will be started for departmental personnel and employees and members of societies.

It has now become necessary to organize cooperative societies at the village, district and national level for placing the movement on a sound

footing. This organizational set up will make the task of coordination easier and give an impetus to the cooperative movement.

OBJECTIVES

In an economically developing country like Nepal cooperative methods will prove very beneficial for the economic uplift of the people. The cooperative plan aims to improve the economic conditions of the people in all the various strata of life and professions through cooperative efforts and practices.

1. General Objectives

- (a) To participate in the creation of an efficient, independent cooperative system consisting of primary societies at the village panchayat level, cooperative unions at the district level, and a federation of cooperatives at the national level;
- (b) To emphasize those activities, which would provide assistance to the cooperative organization, which would increase agricultural production and improve marketing facilities;
- (c) To raise the standard of living of common people through economic development.

2. Specific Objectives

- (a) Provide guidance to potential and existing societies, unions and the National Federation regarding the process of bringing the system into being.
- (b) To participate in the recruitment and training of people for positions as managers, accountants etc.

- (c) To develop a system of audit, business analysis and in-service training for the professional staff and managing boards of societies and unions so that management competence will be continuously upgraded.
- (d) Develop a system of training for Department staff including both in-service training and foreign country courses to insure the availability of well trained technicians to provide high quality assistance to the cooperative movement.
- (e) Establish a permanent location for the Cooperative Training Institute which has adequate facilities and equipment to effectively provide high quality training to both Department staff and cooperative members.
- (f) To propagate cooperative principles and practices through a system of member education.

TARGETS OF THE PLAN

One multipurpose cooperative society will be organized in each Village Panchayat in the second phase of the land reform program. The number of multipurpose cooperatives (like the one in Budhabare panchayat) which will be assigned special work like, credit, management, marketing of agricultural produce, supply of consumer goods, cottage industries and godown facilities, will be 350. The number of special cooperative farming societies will be 10, consumers 10, and industrial societies 75. The total number of all types of societies working with special assignments will be 445.

DEPARTMENTAL ADMINISTRATION

Due to the increasing work load of the cooperative development programs, the Department will be expanded accordingly at the various administrative levels. Some new sections, such as audit, marketing, and economic analysis and research will be added.

ZONAL ADMINISTRATION

The Department, like other departments, will have one Zonal Cooperative Officer in each zone. There will be as many auditors as there are districts under the Zonal Officer, and he will be the link between the center and the district. Audit of accounts will be carried out by Sub-inspectors and will be independent of the district. They will also audit the accounts of all district level societies. The Zonal Officer will implement a program of cooperative development within the zone and also carry out all the powers of the Registrar as delegated to him.

DISTRICT ADMINISTRATION

There will be one Cooperative Inspector in each district to assist and cooperate with the district panchayat in matters related to cooperatives. There will be one Sub-inspector for approximately five cooperative societies, to periodically inspect their activities, to audit their accounts and to establish a proper set up. They should forward a copy of the report to the District Panchayat; the Assistant Cooperative Officer of the District Panchayat will forward a copy of the report to the Anchal Panchayat and the Anchal Panchayat in turn to the Department. Information regarding the financial status of loans provided to institutions (from the Cooperative Bank) should be furnished to the Bank. The location of sub-inspectors' offices should be in convenient places to properly supervise their respective societies.

To launch the cooperative movement properly the Cooperative Department will have as its major functions the following:

- (a) organization and registration of cooperatives;
- (b) advise on drafting of by-laws with particular care to see that they do not conflict with the Cooperative Societies Act;
- (c) recruit and train cooperative staff and field workers;
- (d) maintain a public relations program;
- (e) advise on cooperative member's education;
- (f) advise and assist in the drafting of forms and legal documents used within the movement;
- (g) audit and inspection of cooperatives;
- (h) to implement savings schemes;
- (i) prepare business analyses and research papers;
- (j) finalize the disputes among societies judicially;
- (k) disseminate cooperative information, principles and practices with the help of visual aids, periodicals, films and film strips and arrange seminars and workshops;
- (l) appoint liquidators and enforce and control the liquidation act;
- (m) carry out all other necessary steps for the development of the cooperative movement.

ORGANIZATION OF COOPERATIVE SOCIETIES

A. Primary Society

It is planned to establish one primary multipurpose cooperative society in each Gram Panchayat with the implementation of land reform. Due to the dearth of trained personnel, and other difficulties, a limited number of

societies will be selected. Societies to be established in Village Panchayats will have to carry on their work under Panchayat Ward Committee. The general meeting of the society will select 9 supervisors, one from each ward, and a chairman would be selected from among them. 5 members from each of the 9 wards should be present to hold a general meeting. The members of the society in each ward will elect from among themselves a 3-man Ward Committee. One of them, who is also elected to the management committee, will be ex-officio chairman. The management committee shall appoint a general manager and adequate staff to handle the administrative work of the society, but these appointments should get final approval of the general meeting.

The functions of the Ward Committee will be to advance loans to the members and the recovery thereof, to prepare an agriculture development plan, receive savings, sell produce, provide daily consumable goods and storage facilities. The primary society is the starting point of the cooperative movement; therefore the members will collectively make an effort to solve problems of common interest and to mobilize resources to meet the economic needs. These societies will be the medium through which the various government aided programs permeate to the general public.

Under the various resettlement programs during the third phase of Land Reform, Cooperative Farming will be started on an experimental basis. This work will be done in close coordination with the Land Reform Department, Department of Agriculture and Resettlement Company. By this method one thousand families will do cooperative farming with the aim of increasing agricultural production.

Able and efficient handicraftsmen of small means would be pooled together to work jointly for their economic uplift through cooperation. Such societies

would work in cooperation with the Department of Cottage and Small Scale Industries and Industries Departments. Special emphasis would be given to paper and metal works, blankets, cotton, ceramics, nickleplating, soap, curios, wooden handicrafts including furniture, fruit canning, etc.

B. District Cooperative Union

In order to have a common relationship for the many cooperative societies in a district, and be able to consider and act on problems and common needs, a district cooperative union will be organized. The primary cooperative societies of the district will be the members of the district level union and those members will select one representative each for the general committee; subsequently the general committee will select 9 organizers and one chairman.

There will also be an advisory committee for the union. The managing committee will appoint a manager and staff to manage the administrative work, but it shall see that it gets final approval of general meeting for these appointments.

The union will provide short-term and medium-term loans, both in cash and in kind, to the member societies. Godowns will be constructed to store the loans repaid in kind. This will help to stabilize market prices. The union will also provide consumers goods, and other goods needed for agriculture by farmers through the member societies by procuring them from other sources and processing facilities. It will educate people regarding their membership and popularise cooperation among them.

C. National Cooperative Federation

A national federation of cooperative unions will be organized so all cooperative unions and societies will have a common relationship and thereby become more self sufficient. This federation will be governed by a board consisting of one delegate from each member union. The chairman and manager will be selected from among the representatives. The managing committee will appoint the manager and staff members; however, approval from the general

meeting will be obtained. (1) The federation will cater to the common needs of member unions and their member societies, especially in the field of cooperative education. (2) The Federation will be designed and organized to negotiate large scale purchases of commodities and arrange for these to be transported to primary societies through the unions. (3) It will maintain a close contact with government departments, and other organizations, which have appropriate assistance to offer and arrange ways and means to channel this assistance to respective unions. (4) It will keep close contact with various international cooperative institutions and take advantage of their services.

FINANCING OF THE COOPERATIVE ORGANIZATION AND GOVERNMENT SUBSIDIZATION

Member societies should meet the administrative and other expenses from their own resources to run the cooperative movement at different stages. All costs related to various services provided by the society, union or federation, will be added to the basic cost of the service, commodity or facility provided, and paid for by those receiving their benefits.

Financial help in the form of subsidy will be given to those societies which are working properly but due to circumstances beyond their control cannot bear the administrative expenses.

COOPERATIVE TRAINING INSTITUTE AND TRAINING PROGRAM

The existing Cooperative Training Institute will be expanded for the training of Departmental staff and cooperatives employees. In this Training Institute, Cooperative Auditors and Sub-Inspectors will receive training from 3 to 6 months; training for Cooperative Managers at the Gram Panchayat level will be for 3 months, and a 2 months' training for Supply Supervisors

and Ward Supervisors will be given. Refresher course will be arranged periodically. The Managers of District Unions, the National Federation, and senior officers and Cooperative Inspectors of the Department will be sent to foreign countries for higher training. Similar attempts will be made to send some Sajha staff members, under the scholarship scheme, so they will be of more assistance in administration upon their return.

CONSTRUCTION OF ZONAL OFFICES AND TRAINING INSTITUTE

In the absence of staff quarters and office space, zonal accommodations are now rented. It is felt to be advantageous to own such facilities as the construction cost can be recovered through rental savings in 10-15 years. A separate building for a Cooperative Institute will be constructed in the second year of the Plan.

RELATIONSHIPS WITH OTHER INSTITUTIONS

A committee will be organized to establish close relationships among the Department for Cooperatives, Cooperative Bank, Department of Agriculture, Department of Land Reform and Department of Cottage Industry, to carry out their work in a coordinated way. The main objective of cooperatives is to increase agricultural output; therefore, coordination of activities among the various departments in providing technical assistance in the special program conducted jointly by the Department of Agriculture and the Cooperative Department is necessary.

It is essential that the Cooperative Bank, as the loan providing agency, maintain full coordination with the Department in order to develop the financial position.

The number of societies to be organized, and the training facilities to be provided, will be as follows:

Table A: Number of districts where cooperative societies will be organized yearly.

Plan Year	Districts	
	Preliminary	Coordinated Program
I	10	5
II	15	10
III	20	15
IV	25	20
V	--	25
	70	75

Table B: Number of Special Type Cooperative Societies

Kind of Society	First Year	Second Year	Third Year	Fourth Year	Fifth Year	Total
Coop Farming	2	2	2	2	2	10
Industrial Coop	5	10	15	20	25	75
Consumer's	2	2	2	2	2	10

Table C: Number of District level and National level cooperatives to be organized

Number	I	II	III	IV	V	Total
District Level	1	5	10	11	12	39
National Level	-	-	-	1	-	1

Table D: Number of Village Panchayats and Cooperative societies with special assignments each year

Plan Period	Number of districts to begin each year					Total
	5	10	15	20	25	
First Year	10	-	-	-	-	10
Second Year	10	20	-	-	-	30
Third Year	10	20	30	-	-	60
Fourth Year	10	20	30	40	-	100
Fifth Year	10	20	30	40	50	150
	50	80	90	80	50	350

Table E: Number of people to be trained for the multi-purpose cooperative societies at Village Panchayat level.

Plan Period	Managers	Accountants	Supplying & Marketing Supervisors	Ward Supervisors
First Year	19	19	19	30
Second Year	44	44	44	90
Third Year	79	79	79	180
Fourth Year	124	124	124	300
Fifth Year	179	179	179	450
Totals	445	445	445	1,050

Table F: Number of trained personnel required for District Cooperative Societies

Plan Period	Managers	Supply and Marketing Officer	Loan Officer	Accountant
First Year	13	17	17	17
Second Year	3	3	3	3
Third Year	3	3	3	3
Fourth Year	3	3	3	3
Fifth Year	4	4	4	4
Totals	26	30	30	30

Table G: For National Cooperative Federation

Plan Period	Managers	Supply and Marketing Officer	Accountant	Education Officer
First Year	-	-	-	-
Second Year	-	-	-	-
Third Year	1	1 1	1	-
Fourth Year	1	1 1	-	1
Fifth Year	-	-	-	-
Totals	2	2 2	1	1

Table H: Training to Departmental Staffs

Plan Period	Senior Officer	Asst. Officer	Auditor	Sub-Inspector
First Year	4	11	16	300
Second Year	4	11	25	350
Third Year	4	11	34	-
Fourth Year	4	11	-	-
Fifth Year	4	11	-	-
Totals	20	55	75	650

Number of persons required: (during the plan period)

Table I: (a) Staff needed for Department

1. Senior Officers	20
2. Coop Inspectors	55
3. Auditors	75
4. Coop. Sub-Inspectors	<u>650</u>
Total	800

Table I: (b) For National level

1. Managers	2
2. Marketing Officers	2
3. Supply Officers	2
4. Accountant	1
5. Education Officer	1

Table I: (c) For District Level

1. Managers	30
2. Supply & Marketing Officers	30
3. Loan Officers	30
4. Accountants	30

Table I: (d) For Village Panchayat Level

1. Managers	445
2. Accountants	445
3. Supply & Marketing Officers	445
4. Ward Supervisors	1,050

EQUIPMENT REQUIREMENTS

The following equipment is required during the plan period:

Description	YEAR				
	I	II	III	IV	V
Jeep	5	4	2	2	2
Calculating Machine	3	3	3	3	3
Typewriter	6	4	2	2	-
Camera	1	-	-	1	-
Movie Projector	1	-	-	-	-
Slide Projector	-	1	-	-	-
Sleeping Bags	30	50	50	-	-
Duplicating Machine	7	3	2	2	2
Motor Cycle	1	-	-	-	-
Bicycle	200	200	100	-	-

Foreign Advisors

For the implementation of this plan a few foreign advisors and specialists will be needed. Among them, one for central office, one for field offices, one for National Federation and two each for the first and second year for Sajha movement. It is presumed that if the working period of the advisors and specialists would be two years, the number required would be as follows:

	First Year	Second Year	Third Year	Fourth Year	Fifth Year
Advisors and Specialists	4	4	2	3	3

The following will be the expenditures per year during the plan period:

Plan Period	Central Administration		Zonal Administration		District Administration		Training	Construction (buildings)
	Administration	Administration	Administration	Administration	Administration	Administration		
First Year	11,76,804	5,42,754	7,05,476	2,18,460	3,75,000			
Second Year	13,34,074	5,96,946	19,39,654	1,89,404	7,50,000			
Third Year	13,79,798	6,97,060	19,71,724	77,648	1,50,000			
Fourth Year	13,88,906	6,83,099	20,42,154	77,892	1,50,000			
Fifth Year	14,46,086	6,56,809	21,16,224	78,636	-			
Totals	67,25,668	31,76,668	87,74,232	6,42,040	14,25,000			
First Year								
Second Year	48,09,078							
Third Year	42,75,230							
Fourth Year	43,42,051							
Fifth Year	42,97,755							

Total expenditure required for five years = Rs. 2,07,43,608.

VILLAGE DEVELOPMENT WORK

1. The Four Steps in Village Development Work are:
 - a. A systematic discussion of common felt needs by members of the Community.
 - b. Systematic planning to carry out the first self-help undertaking that has been selected by the Committee.
 - c. The almost complete mobilization and harnessing of the physical, economic, and social potentialities of local community groups.
 - d. The creation of aspiration and the determination to undertake additional community improvement projects.

2. The objective of Village Improvement Work:--

To help inspire village people to work to live better and also create in them a desire to learn how to live better.

3. Pitfalls to avoid in Village Development Work:

1. Failing to understand the people
2. To tell the people what their problems are instead of helping them see and understand their problems and arrive at the decision that they have a problem.
3. Giving answers to questions without being sure whether the answer is correct can be dangerous.
4. Planning the program and not having the necessary supplies and tools ready for the villagers use will make the villagers lose confidence and trust in you.
5. Not wanting to do or not knowing how to do the things that are recommended is a sure way to lose the confidence and respect of the villagers.
6. Failing to follow through on village interest.
7. Failing to get village people to act as leaders
8. Making decisions for the people or trying to force the people into accepting a given recommended practice is not democratic extension work.

OVER

9. Becoming interested in and stimulating village interest in too many things.
 10. Becoming impatient at the amount of time it may require to bring out a sufficient change.
4. Satisfactions of being a good Village Worker:-
- a. The villagers trust him
 - b. The villagers believe in his honesty.
 - c. The villagers know he will keep his promise.
 - d. The villagers know he will help them in any way that he can.
 - e. The villagers can count on his help at any time.

The ultimate success of Nepal's Village Development Program will be when the villagers become effective, self assertive citizens, and Nepal will blossom out as a living democracy.

May 8, 1959

SOME EFFECTS OF RECENT CHANGE IN RURAL NEPAL

John T. Hitchcock*

Geographically the kingdom of Nepal may be divided into four regions: the area of high peaks and northern plateau; the hilly area; the Kathmandu Valley and the low-lying forested belt bordering India. On the basis of firsthand experience, little has been published about village life in the western hilly region and nothing about how these villages have responded to recent developments of intensification of trade educational advances, and government-stimulated change. To throw some light on these questions, this article will analyze data drawn from a single village in the hills south of Annapurna Himal. Specifically, I ask: What changes have occurred in the village and the area adjacent to it during the lifetime of those who control village affairs? Two trends will be pointed to as having special significance for the future.

Introduction and Background¹

Nepal has many features in common with other regions of Asia: heredity as the main determinant of status; family and kinship as the main sources of security. Industries are few and much of the agriculturally based economy is characterized by small holdings, production for family use, and traditional service relations. Communications are difficult, educational opportunities restricted, and illiteracy widespread.

Despite these similarities, the country has remained more "traditional" than other Asian societies. It has been less affected by modern industrial civilization and by the ideas associated with the Enlightenment. Nepal's relatively unchanging way of life resulted in part from the mountainous and difficult terrain but was primarily due to deliberate government policy which fostered isolationism and conservatism.

The Rana family, which ruled Nepal from 1846 to 1951, discouraged education within the country, and permitted few to travel or study abroad. Except for a few foreign diplomatic residents of Kathmandu, residence or travel by outsiders was almost non-existent. These restrictive policies effectively maintained a conservative Hindu polity through the early part

* John T. Hitchcock is in the Department of Anthropology and Sociology at the University of California, Los Angeles. (This essay, representing a preliminary field report, was written under trying physical conditions. The editor is grateful to Professor Hitchcock for having responded to our request so that this very important and little reported area might be covered in this issue.)

1. The research on which this article is based was made possible by a grant from the National Science Foundation. The research, which is still in progress, was carried out in the winter, spring, and fall of 1961. My wife participated in all aspects of the work. We were assisted throughout by Hem Bhabdur Thapa, and during parts of the work by Hari Ram Rana, Bihari Krishna Shrestha, and Kesar Lal Shrestha.

of this century. The reformist Hindu sects brought constant pressure on the Rana family for more liberal policies. Prior to their overthrow in 1951 and in the wake of India's successful struggle for independence the Ranas did make a few moves in liberalized directions. But it was not until the resumption of rule by the Shah family, after the revolution that the country saw any marked steps in new and more progressive paths.

At this time, especially in the Kathmandu Valley, there was widespread discussion of judicial, political, and economic reform followed by the issuance of a number of government directives. In 1959, with the country's first general election, parliamentary rule was established. The king felt it necessary a year later to dissolve Parliament and rule directly. But by this time most of the trends in liberal government were established and continued to be encouraged and strengthened.

The most rudimentary economic development of Nepal would hardly have been possible without financial and technical assistance from outside the country. Much of the expense is being met by Russia, China, Israel, and India. The United States foreign aid program, which was extended to Nepal in 1951, has since been steadily expanded.

Banyan Hill

In the question posed at the beginning of this article, I used the phrase "village and area adjacent to it." The meaning of "area adjacent" has been defined by my interests during the course of this study, not primarily concerned with change. I made systematic contacts with groups outside the village only when they impinged on or affected the focal village. I was concerned with Brahmans from nearby Brahman villages, for instance, only in their roles as moneylenders or family priests in Banyan Hill. I mention this in order to make clear the limitations of the data.

Banyan Hill consists of twenty-six Magar farmsteads with a population of 123. The magar inhabitants are part of a racially Mongoloid tribe who are most numerous in the hills south of the Annapurna and Dhaulagiri Himal. The tribe accounts for at least a fifth of Nepal's total population. Magars in the area around the village speak both Nepali and their tribal language, Magarkura, a Tibeto-Burman tongue.

Banyan Hill is but one of a number of small villages which make up Pandera Thum, an administrative division whose unity is symbolized by a Thum shrine or kot. In addition to the focal village, there are eight other Magar villages ranging in size from nine to thirtyseven households. Out of approximately six hundred households in Pandera Thum, Brahmans occupy 243, or forty percent, and Magars 190, or thirty-two percent. The villages in the Thum cover the southern slope of a 4,000-foot ridge. Each is surrounded by terraced fields; millet and maize are the major crops on the dry land with irrigated land being used for paddy. Pandera Thum is more prosperous and productive than the higher and more northerly areas of western Nepal.

Ties of traditional service connect Banyan Hill families with Brahmans, Metalworkers (sixty households), Leatherworkers (thirty-six households) and Tailors (seventeen households) in neighbouring villages. The most important local officials are two rice-tax collectors and eight headmen. The headmen who collect the dry-land tax are the channel through which the government makes contact with the villagers. They are also expected to keep order. Religious life is characterized by both shamanism and a Hinduism which is in

part Brahman-mediated and in part not. The non-Brahman-mediated part involves sacred dance and song and propitiation of local godlings by live sacrifice.

Most Banyan Hill Magars belong to two patrilineages. The nuclear family predominates and ties of marriage connect the families to other Magar villages within a five-mile radius. Matrilineal cross-cousin marriage is preferred. There is one landless laborer family. All other families own land and land-owning is important both economically and in terms of status in the village.

Intensification of Trade

In recent years, there has been an increased monetization in Banyan Hill and an increase in trade items available in nearby regions. The primary sources of cash are soldiers' pensions, and money-lending. The number of soldiers and pensioners in the Thum has been more than tripled; now there is a Captain and a number of Subedars where previously there was but one Gurkha commissioned officer of Subedar rank. Last year the eight Banyan Hill pensioners, one of whom is a Subedar, brought in a total of Rs.2926.27 in pensions.² At present, two men from the village have civilian jobs in India and, from time to time, send small amounts of money to their wives. Monies from outside the Thum are further augmented by the salaries of five school teachers; one is from Banyan Hill.

The sale of grain brings in some cash from outside but this source does not compare in importance with soldiers' salaries or pensions. Although I do not have data on the Thum as a whole, I believe that they would show that loans are one of the most important channels by which cash is brought into the Thum. At least it is true in the case of Banyan Hill whose wealthiest resident, a headman, has loaned approximately Rs 60,000 at ten percent and a fair proportion of the loans were made outside the Thum. The purchasing power which this cash represents acts as a stimulus to trade.

Another factor of importance in this newly emergent cash economy is rising prices. Ten years ago a commonly used village measure (pathi) of millet, paddy, or maize cost fifty pice. In the spring of 1961, paddy and maize were selling for 150 pice, millet for 100 pice a pathi. And this was a year of good harvests. There has also been a steady rise in population. Figures from land records (although they are to be relied on with caution) suggest that, during the past century, the Thum's population has increased about fivefold.

In the area generally, these stimuli to trade are seen in the rapid growth of bazaar towns. A bazaar town has sprung up half a day's walk from the Thum. Of its six stores, all but one were started in the last decade. During this time period, two tailors moved to the town and a post office, police station, and government-sponsored health center were established.

Although this town attracts some Thum trade, most of Pandera Thum's trading is done in a small bazaar a few minutes walk from Banyan Hill. The first shop was built here twenty-five years ago and three others were put up in the last twelve years. Some idea of the trading possibilities at present are shown by the fact that the owner of the largest shop (with

2. One U.S. dollar equals 7.60 Nepal rupees

an inventory of Rs 45,000) now talks of setting up another some miles north.

The largest selling items in these shops are cigarettes and cloth. The most popular cigarette is made in Nepal and carried in from Narayanghat, a town about four days walk to the southeast, while the bulk of the cloth is Indian made. The cloth as well as most other goods is carried from Butwal.

A look at the inventory of the biggest shop gives one a fair index of the large variety of goods currently attracting buyers in this part of Nepal: Ayurvedic and some Western medicines, ritual articles, a wide selection of toilet goods, stationery supplies, some ready-made clothing, and a heavy investment in cotton cloth. Recently added items such as stationery supplies for the growing number of school children, ready-made clothing, and flashlight reflect the new interests of the area's population.

Business in the shops is almost entirely on a cash basis. Paper currency, which used to be regarded with some suspicion, is readily accepted whether Indian or Nepalese. All but the newest shop will sell on credit to reliable customers and the largest shop has unpaid accounts totalling Rs 8,000. In addition to shop purchases, cash is the usual medium in livestock transactions, interest on loans, and tax payments.

To balance the picture, however, it must be noted that there are many transactions which continue to be made in kind. The people of Banyan Hill take traditional services from Metalworkers, Tailors, Leatherworkers, Thum messengers, priests, and river ferrymen. All of these are paid on fixed occasions, without regard to the specific service rendered and almost entirely in kind. Shamans and astrologers are generally paid at least partly in kind, usually at the time they render the service.

Although the shops point to an intensification of trade and monetization of the economy, the role of proprietor marks only the incipient stage and not as yet a true form of specialization. Despite the size of his investment and the apparent security of his business, the proprietor of the largest shop still remains closely tied to the land. The other shopkeepers also have farms, for the most part managed by their wives.

Concentrations of Wealth

With increasing pressures on the land due to the growth in population, the emergent money economy, and trade intensification come new patterns for the concentration of wealth in the Thum. In the past, the largest concentrations of wealth were acquired by Brahmans who worked as petty officials either in district headquarters or in Kathmandu. According to public opinion, the wealthiest man in the Thum is a retired Brahman official; the second, a Brahman official's widow.

But on a par with this widow is the Magar headman of Banyan Hill. Inheriting a farm of five hul of dry land (in this region a hul is approximately a third of an acre)³ and nine of wet land, he increased his total tillage over forty years to forty-one dry and 112 wet hul. Some idea of the relative size of this operation is suggested by the fact that the grain produced last year on these holdings totalled about 587 muri for a family of fourteen (a muri is 2.4 bushels). The next wealthiest farm in Banyan Hill and one with a high level of living,

3. This approximation depends upon measurements which we made of fields said by different farmers to represent a hul. Officially the hul is not wet-

produced only ninety-two muri for a family of nine, while the community's poorest produced about five muri for a family of seven.

How can this rapid acquisition of land be explained? To some extent it is the result of the headman's favored position in respect to labor, and to education, including the ability to write legal documents. But mostly it is due to extensive money-lending. Unlike the wealthiest Thum Brahmins, whose estates mainly reflect the emoluments of office, this estate reflects a local need for cash brought about by increased trade. Some of the larger loans have been made to shopkeepers.

However, the major significance of this rapid expansion is its link with the growing pressure on the land. The disappearance of vacant, cultivable land, combined with increased population, has pushed more and more farms below the level of marginal productivity. Data from Banyan Hill show that land partition among sons has made an increasing number of farms too small to meet subsistence needs. The most common reason for borrowing is simply to meet the need for food. Given such a situation, great advantage lies with the person, such as the headman, who has means and ability to lend money. Land and money both flow in his direction. This trend is apparent throughout the Thum, among the wealthiest Brahmins and among Magars who have retired with large pensions.

Government-Stimulated Change

During the last decade, a number of economic and political reform measures have been enacted as initial steps in the stated government goal of creating a "grass roots" democracy in rural areas. The problem of enforcing these laws in outlying areas is complicated to some extent by the concomitant changes they require in the traditional social order.

Compared to many other villages in the large administrative district to which it belongs, Banyan Hill is not far from district headquarters. But it recently took me two full days with porters to make the trip and it takes most hillmen, travelling light and fast, at least a day. Now that there is an airstrip in Pokhara, Banyan Hill is only three to four days from Kathmandu. Until a few years ago, it took ten to twelve days to reach the capital city. I mention these travel times to explain a situation which may be termed "administrative fade." Communications are so difficult that laws which are passed often cannot be enforced and, in fact, are sometimes unknown to villagers.

I conducted a survey in the village to determine the extent of the residents' knowledge of a number of laws passed in recent years which directly affect their welfare. Although there was almost total ignorance of the law (1957) which forbade landlords to take over half of the tenants' yield as rent, it was generally known that interest rates of more than ten percent were now illegal. Everyone also knows that headmen are forbidden to take the formerly allowed three days of free labor per year from households where they collect the dry-land tax.

The difficulties of rural law enforcement are seen in the continuation of high interest rates. Although the documents involved record an interest rate of only ten percent, one Banyan Hill farmer is paying fifteen percent, although in kind. Some money lenders take only ten percent during the period the loan runs but at the outset they lend less than the amount recorded. In general, the picture is one of rising interest rates with money becoming harder to obtain.

A measure which has had an effect on the traditional social structure is

the one which forbids headmen to extract customary labor dues. The law has been reasonably effective since knowledge of it is widespread. Some headmen have ceased trying to take this kind of labor but those who choose to disregard it speak of the customary exaction (previously called bethi), as ssga which means "voluntary assistance." They have also added the practice of providing the laborers with a meal. Since the usual wage for labor is food plus cash (usually three-quarters to two-and-a-half rupees per day), the food payment still represents only a part of what normally would be due. Labor exactions fall most heavily on the lower castes, some of whom give as much as forty days per year.

Another law which, in recent years, has had a marked effect on social structure was the edict of 1924 freeing the slaves, a group known as Gharti. The most meaningful part of this law was the right of the Gharti to maintain their families intact. Economically, the law had less effect, although some of the group have acquired land. All five of the Gharti families in the immediate vicinity of Banyan Hill are economically dependent upon Brahman and Magar families for whom they work as sharecroppers, day laborers, and occasionally as ceremonial functionaries.

Under the Village Panchayat Act of 1949, a panchayat was established in 1952 whose jurisdiction included Pandera Thum as well as some adjacent villages. Under the terms of the act, the Panchayat was expected to carry out village improvements and also was given judicial power in the form of authority to try some cases and levy fines. Up to this time, the dominant political figure in the area has been one of the headmen and the act has caused no significant shift in the locus of power. In 1957, the panchayat was officially discontinued as a judicial body, a function which it seems to have performed well. As a body responsible for village improvements, its activity was mainly confined to sending petitions to the government for a hospital, schools, or a bridge. This activity became especially intense after the establishment of Parliamentary Rule and the election of a candidate who was given strong local support. With the exception of these petitions, none of which were granted, its only other major activity was road maintenance. The panchayat ceased to function altogether when the king assumed direct rule.

Untouchable Awareness of New Attitudes

During the course of my stay in Banyan Hill, I attended a Satya Narayan ceremony. It was much like other ceremonies I had seen: an elaborately decorated booth, wound with orange and yellow flowers, and canopied with a red cloth. The ceremony being conducted within it also seemed much the same as usual. What made this ceremony different from the others was that it was being conducted by an untouchable Metal-worker, for an untouchable ex-soldier belonging to the same group. As a guide, the Metalworker was consulting a booklet on how to conduct such a ceremony. The required Sanskrit verses, which he could read but could not understand, were interspersed with directions about the ritual order written in Nepali. He purchased this booklet the previous year, in the bazaar town near Banyan Hill. The ritual articles he was using, other than things he could obtain from the local houses and farms, had been purchased in the Thum bazaar, in a pre-packaged Satya Narayan "kit" which came from Butwal. Perhaps quite as unusual as seeing a Metalworker officiating at a Satya Narayan ceremony was the fact that he had obtained advice from a young Thum pandit. This was despite the fact that other Brahmans had warned the Metalworker some years before when he first began reading Sanskrit verses for daily personal worship that all his children would die if he persisted. I mention the incident because it exemplifies a dimension of the new ideas which are gaining a foothold among many of the younger Metalworkers, especially those who have served in the army.

These ideas do not mean that there is tension, or even very many signs of erosion, at the point of major cleavage in the local caste structures: that between the Tailors, Leatherworkers, and Metalworkers, who are "unclean"; and castes like the Magars and Brahmans who are "clean." But the thinking has begun and it is mediated mainly by ex-soldiers or soldiers home on leave who tell of fines being levied in the Indian army on those who make discriminations on the basis of untouchability. It also is well-known that one Metalworker who got into a non-Gurkha Indian battalion attained the rank of Subedar.

Another source of new ideas has been politicians seeking election. No candidate made an appeal to the low castes on the basis of untouchability, but all did say there ought to be no difference between high-status and low-status castes in educational opportunities. All stated that this was present government policy. Soon after hearing this, Metalworkers began sending some children to the local school. They were asked to sit separately but in other respects were treated like children of the high-status castes.

A third source of new ideas was a Metalworker from one of the nearby towns who came to the local Metalworker villages a few years ago. He was asking for funds in order to start an organization to help them. He told his listeners that they were decendants of a god named Biswa Karma, a brother of Vishnu, Shiva, and Brahma, who made life possible because he could fashion things with his hands--artifacts, he noted, which were first made out of stone. Rhetorically he asked why people should touch dogs who eat excrement, but refuse to touch the Metalworkers, or if they do, must have themselves sprinkled with water.

Despite these new ideas (and they are new, for Metalworkers say nothing of the kind was discussed in their fathers' time), the Metalworkers are realistic about their situation. One Metalworker said,

We are like frogs at the bottom of the well.

But he added,

We know there are people in the cities who are working for our benefit.

The extent of the change among this group can best be summarized by nothing that the phrase sometimes used as a self or group referent consists of two English words, "technical man" or "technical people."

I did not have as close contact with other untouchable groups as I did with the Metalworkers. Those contacts I did have, however, indicated much similarity in attitude regarding disabilities associated with caste. Yet I believe that, of the three groups, Metalworkers hold the ideas with the most intensity; and this is because more of their young men serve in the army where they are in demand as armorers.

Magar Social Advance

In this Thum the most conspicuous change which has occurred in the past few decades is the improvement in Magar status. Since status is relative concept and it is the local Brahmans who have the highest status, this change emerges most clearly in the context of Magar-Brahman relations. Brahman superiority is expressed symbolically when Magars, as the usual form of greeting, touch their foreheads to the Brahman's lifted foot. Although its focus is in ritual, this superiority and associated deference derive

from other sources as well. As a group, the Brahmans always have been better educated than Magars. They were educated in the home by fathers or relatives, or more recently in a government-supported pathshala (a school for teaching Sanskrit and religious texts) founded in the Thum and attended almost exclusively by Brahmans. Together with two other groups who claim relationship with the twice-born castes of India, the Thalari and the Chhetri, the Brahmans have long been part of the ruling Nepalese elite. There always have been many Brahman officials in local district offices. Twenty years ago, at a time when no Magar held a post above the Thum level, five Brahmans from the Thum held such office.

As a result of their religious, educational, and political advantages, Brahmans, in contrast to Magars, have been able to secure more and choicer land. Less favored groups of the community, including many Magars, are dependent on the Brahmans for labor opportunities, and for loans of cash or grain. Brahmans do not plow and five of the poorer Banyan Hill Magar men work for Brahmans as plowmen. Fifty percent of the cash loans in Banyan Hill were made by neighboring Brahmans, and, in two cases, interest on the loan is being paid off by working as a framhand.

It is against such a background that the change in Magar status is to be understood. I will discuss the increase in educational facilities now available to Magars and the result of this increase; how a Magar headman has come to rival Brahman families and, finally, I will turn my attention to the indications and causes of a fairly pervasive change in the Magar group as a whole.

Increase in Educational Facilities

A reliable Banyan Hill Magar informant, now in his sixties, estimated that, when he was a boy, there were only four or five educated Magars in Pandera Thum. In Banyan Hill today there are twenty-eight males and seven females who have had some education. In accounting for this advance, the Banyan Hill headman and Magar soldiering have made important contributions.

Seventeen years ago the Banyan Hill headman, who had educated himself with the help of Brahman friends, founded a pathshala in the Thum bazaar. Two of his sons had been attending the Thum's first pathshala, but it was far away, and he felt that his section of the Thum should have a school. He provided the building and paid for the services of, first, one pandit and then two. Eventually, about twenty-five students were attending, half of them Magar, half Brahman. This school ran successfully until the pandits said they did not believe Magars should learn the Veda (ancient scriptures). This grieved the headman. He closed the school, hired another pandit and began educating his own sons and a few other Magars in his own home. For some years after this, until 1952, Magar education did not receive much impetus locally. In 1952, the headman, with funds he himself provided and with the help of labor he was able to secure, erected a new, larger building, and hired two teachers, including a pandit, to staff it. This development was an important factor in making it possible to found a school shortly afterwards with financial assistance from an army-connected source outside the Thum, a development I will consider in connection with the Army's education contribution.

Army service has made a contribution of long standing. In Banyan Hill, of the sixteen men who are now forty years old or older, ten served in the British army and, during the course of their service nine learned to read and write. An army-connected source of education, important for the boys of the present generation are the schools of Dehra Dun, India, where there is a large Gurkha cantonment. There is a hostel there for boys with a relative in service, thus making it possible for a few to go and live cheaply among their

own countrymen. Ten Magar young men from the Thum have attended, or are attending, this Gurkha Military High School.

Another factor of much importance for Magar education, and one which also has an intimate connection with Magar soldiering, is the Central Co-ordination Board Post-War Reconstruction Fund.⁴ The fund was established by the government of India for the resettlement of Indian military personnel who had served in World War II. Nepal received its share of the fund in 1952 and the money is allocated by a Central Co-ordinating Board acting in co-operation with Zonal Advisory Boards and District Soldiers' Boards--a structure which draws heavily on ex-servicemen who are elected as representatives from areas of heavy pensioner concentration. Pandera Thum falls within the jurisdiction of the Pokhara Zonal Advisory Board and District Soldiers' Board.

One of the uses for the money from the Post-War Reconstruction Fund is the establishment of schools, over which the District Soldiers' Board exercise administrative and financial control. In Pokhara there is a large, well-staffed District Soldiers' Board High School; and four years ago the District Soldiers' Board, acting on a petition from Pandera Thum pensioners, agreed to pay the salaries of two teachers. At present, this school has a teaching staff of three middle-aged Magar pensioners from the Thum, and they have been joined by a young India-educated Magar, who hopes to become headmaster, pending Board approval of the petition for his hiring.

The effects of these new and local educational opportunities are clear. We have noted that only one literate Banyan Hill man over forty received an education from some source other than soldiering. In contrast, one finds that none of the eighteen literate Banyan Hill males under forty learned to read and write in the army.

the
With/establishment of the new government in 1951, education for girls was officially encouraged. The data on Banyan Hill women show the effects of this encouragement, plus the existence of the local school. Whereas none of the nineteen village women forty or over are literate, there are seven young girls who have had some education or now are studying.

Rise of Magar Headman

In Pandera Thum fifty years ago there was no one Magar family which could compete in prominence with a number of Brahman families. Today this is not true, for now the Banyan Hill headman and his family have attained a prominence which equals or exceeds that of any local Brahmans. In the rough and tumble of village politics, this headman was able to cow all rivals, including the most powerful Brahman clique and three other Magar headmen as well. This brought him well to the fore politically, since neither the rice-tax collectors nor the remaining headmen took his same active interest in village affairs. This political rise was accompanied by an increase in wealth, for reasons noted previously.

In a status system which stresses heredity, ritual equality with Brahmans is not possible for a Magar. But it can be approached, and the headman has done this in a way which calls attention to a new religious development in the Thum. A Vaishnavite Brahman, trained in Benaras, has set up a religious center, including a temple and a number of hostels, on the banks of the

4. I am grateful to Captain J. Sikund, Indian Embassy, Kathmandu, for information regarding the Post-War Reconstruction Fund.

Kali Gandaki, about a day's walk from Pandera Thum. A devotee of Krishna, he inveighs against meat-eating, smoking, and drinking, and teaches a strict regimen of daily worship and purification. This guru (religious teacher) has had a strong effect on Brahmans in the region, most of whom are meat-eaters, but he has not had much appeal for Magars. The headman has been an exception. He has become a Vaishnavite, has secured a Brahman retainer, and is devoting two or more hours every morning, and an hour or more every evening to the worship of Radha and Krishna in a small wooden temple constructed beside his house.

In pursuit of merit the headman has undertaken a long series of religiously enjoined activities, most of which have been celebrated in a verse panegyric composed by a Brahman admirer. These include pilgrimages to holy spots, giving his weight in a mixture of gold, silver, and copper to Brahmans, and undertaking mild but very lengthy fasts during which long portions of each day are spent in reciting religious verses. As a result of these activities, the headman's reputation for religiosity equals that of any of the local Brahmans; and, in fact, there are many local Brahmans with whom he will not eat, since they fail to come up to his standards of ritual purity.

Improving Status of the Magar Group as a Whole

The example of the headman is a single case of realignment in Brahman-Magar relations. There also is evidence of a more pervasive change, although it still is in its initial stages. The trend may be summarized in part by stating that more Magars have attained some sort of elevating outside connection or at least are securing the means to such connection. And in this context there are three things of special importance to them: the government, the District Soldiers' Board, and the Indian and British armies. The importance of the kind of education now being given in the local schools, and in schools such as the Gurkha Military High School of Dehra Dun, is its value in securing government employment. As compared with Brahmans, Magars in Pandera Thum are taking greater advantage of this avenue to elevating outside connection.

The District Soldiers' Board, because it is a source of both money and valued service for ex-soldiers (which with few exceptions in Pandera Thum means the Magars) provides another form of elevating outside connection. The District Soldiers' Board Hospital in Pokhara gives priority to ex-soldiers, and the Pokhara Soldiers' Board High School, in which one of the India-educated young Magars from Pandera Thum is a teacher, has been established especially for their children.

Finally, the Magars are improving their position through enlistment in the British and Indian armies. There is some ambiguity here, since they serve as mercenaries and often are forced to leave their farms because of poverty.⁵ But ambiguity is slight and disappears if the soldier returns as a Gurkha commissioned officer (British) or a junior commissioned officer (Indian). These Jamadars and Subedars, whose pension checks represent substantial sums in village terms, are always known by their title, as are their wives. They are respected men in the community. There is even less ambiguity when a man, as is possible now, returns as a retired commissioned officer like Thum's Captain. Few decisions of local importance are made without consulting him and his village is known as "the Captain's village"

5. See John T. Hitchcock, "A Nepalese Hill Village and Indian Employment," *Asian Survey*, I, No. 9 (November, 1961), 15-20

The local connection of most importance for the general enhancement of Magar standing is with the Banyan Hill headman. It is not as a symbol of highest Magar attainment that he is primarily valued. His Brahmanization, perhaps, is too excessive. The names of Magars from outside the Thum--a politician elected as a Nepali Congress representative to Parliament from a nearby district, and a retired Captain from some distance away who has done much to improve his village--are names most mentioned when Magars are asked what member of their group they admire most. But there is widespread agreement that the headman, besides what he has done to help education of Magars, has made a helpful contribution of a different kind to their welfare and enhanced stature. He has provided them with protection against families which were taking advantage of them in financial matters. Wealthy Magars were not blameless, but the main source of trouble was a few Brahmans. In village parlance, these people now are "quiet".

The outcome of the recent general election also was a contribution to general Magar advance. To a large extent, the election turned on a contest between a candidate supported by the Magars and one supported by the Brahmans. The Magar candidate won handily and, although Parliament was dissolved before much could be done in the area, Magars did feel during the time it was in existence that they were represented by a man interested in their welfare. Winning the election gave Magars an increased sense of their solidarity and, at the same time, gave them a sense of their power, at least under an electoral system.

Conclusion

These, then, are some of the most marked effects of recent developments in this portion of western Nepal: an increased monetization of the economy and an enlarged flow of goods from the outside; a tendency for both money and land to concentrate in fewer hands; government-stimulated changes in educational, political, and economic spheres, with effects frequently much attenuated by administrative fade; a slight shift in the attitudes of untouchables toward themselves and the structure of caste; and a general improvement of Magar status. A picture for the most part of incipient, not developed and far-reaching change.

Thinking of the future, I would select two trends as having special significance. At present there are virtually no landless families and there is little hunger. With some pride the villagers say.

There is no one here who cannot fill his belly.

Some families eat maize often and rice seldom but it is possible, by utilizing the land they own, by working for hire, and by borrowing grain or money when times are difficult, for almost all families to get enough to eat. There are wide disparities in wealth, but there is a point beyond which few families have been pushed. One might call it the line of minimal economic sufficiency and self-respect. This line is socially recognized. When a man goes so deeply into debt that it would be impossible for him to pay his creditors without losing all his land and becoming destitute, it is customary for all creditors to come together with the debtor and an arbitrator, such as a headman, and agree to divide a portion of his land and perhaps his cattle proportionately among the creditors. But something is always left--some of the livestock, some of the land, and a house--so that the family will be able to continue as a property-holding unit.

The lack of destitute landless helps to create a context in which the "grass roots democracy" the government hopes for will have a better chance of realization. But it seems unlikely that this condition can be maintained in the face of the present trend toward concentration of wealth, a trend which will become more pronounced in this area (through the improvement of transportation facilities) should become a "breadbasket" for the rapidly growing town of Pokhara. Growing pressures on the land and more commercialization of agriculture will erode the existing social controls which prevent poor yeoman farmers from becoming landless laborers. These social controls will be further weakened if the present large landholders, as they become more wealthy, also become absentee landlords. (Already in the Thum one man owns a commercial farming venture in the distant lowlands and it seems highly probable that, in the future, at least one Magar young man with a good-sized holding will want to work it with tenant labor and live in the town or city with his wife and children.) The government is not unaware of these problems and has taken steps toward land reform and cheap rural credit.⁶ But more vigorous action is needed to stem the present trend effectively, and such action will become especially imperative if, for any reason, employment opportunities outside the country were to disappear.

The second trend is the growing leadership potential which can be counted on to respond to government guidance. This leadership seems likely to come in greatest strength from the Magars. I say this because the general Magar advance not only seems to have been the most far-reaching change in the last decades but seems to point in directions encouraged by the government.

The quality of the general Magar advance may be seen most clearly when contrasted with the rise of the Magar headman. Paradoxically, even though the headman has made contributions of a high order to the general Magar advance, in its total configuration, his rise looks in a different direction. Its main tenor is traditional India and Nepal.

The Magar advance, seen apart from the headman, has a somewhat different import. Its prime support is foreign military service and its major activity is education. It is typified by ex-soldiers who support the new school or participate directly as teachers, and by young men who have been educated above the primary level. Both groups, but more especially the young men, are an important channel through which new ideas, particularly those generated during the course of India's increasingly rapid development, reach the hills. It seems reasonable to expect that this group, which looks more toward a developing than a traditional India and Nepal, will be an increasingly useful source of support for government programs.

6. See Mahesh Chandra Regmi, Some Aspects of Land Reform in Nepal, Nepal Today Press, Kathmandu, 1960.



SURVEY OF AGRICULTURAL CREDIT AND MARKETING COOPERATION IN NEPAL :
STRUCTURE, OPERATION AND PROBLEMS AND STRUCTURAL AND OTHER INTER-
RELATIONSHIPS BETWEEN THEM

by N.B. Shah, Registrar, Coop. Department
His Majesty's Government, Nepal.

July 8, 1965

In the very beginning of this brief survey of agricultural cooperation, I would like to delineate the borderlines of this paper. As the subject under review is vast and the cooperative movement of Nepal is still in its initial phase of development, the paper has, perforce, to be more descriptive rather than analytical in its nature. Secondly as this paper deals with cooperative agricultural credit and cooperative marketing only, a strict policy of confining the scope of this study has been followed and as such some of the related aspects of agricultural cooperation which have a great bearing on agricultural cooperation have not been taken to consideration. Finally, this paper has been prepared as a cooperator's approach to the problems, possibilities and prospects of agricultural cooperation in Nepal. In a some what complicated situation where the Registrar of Cooperative Societies has to present his views with a cooperator's approach to the problems etc., it must be clearly distinguished that the suggestions offered here or the observation made with regard to certain problems which have to be tackled effectively, the opinion, the suggestions, and observations are entirely my individual views and in no way they reflect the official policy already adopted. Thus I request you all to bear in mind that while the factual statement is representation of Departmental activities, the problems and their suggested solutions are my personal views, a cooperator's views towards cooperative problems which need thinking by all of us.

Before proceeding with the survey of Nepalese agricultural co-operation, an understanding of the general features of Nepalese economy, would be desirable. Like several economies of emerging nations of Asia and Africa, Nepalese economic structure is also marked with feudal

characteristics which have literally twisted the shape of economy till very recent past. The rural sector of the economy, in particular still suffers from the feudalistic flaws such as the patterns of Land ownership, the subsistive nature of production and the dormant stage of basic facilities needed for the intensive type of farming, that is, better facilities for the transport, better storage and efficient irrigation. This predominant hold of feudal set up in economic life was the primary and main reason for the complete absence of flourishing independent economic agencies in the nation. Thus, it gives an idea, as to why neither capitalistic organisations based on individual incentive nor cooperative or, for that matter any other social form of institutions, could develop either in industrial or in rural sector of Nepalese economy. Thus, in brief, a narrow feudal structure of economic life has still a great bearing on the present day Nepalese economy.

Keeping this basic fact in mind it can easily be understood as to why the rural sector in general, and agriculture in particular forms the backbone of our national economic life, some basic data pertaining to the rural sector would explain this observation. Out of the total population of 93,87,661, about 80.71 lakhs of people are involved in agriculture in one form or the other. It shows that more than 93% population of the country is dependent on agriculture. On the other hand only 32.9% of the total land surface of the country is cultivatable, out of which 17.7% is already under the plough. It reveals that at the most, only 16.2% of the land can be brought under cultivation. It further reveals that in future the pattern of agricultural development will have to be more intensive in scope

and oriented towards technological advancement. As agriculture is the greatest single factor of national production it is naturally the largest productive occupation of the populace. This impression is substantiated by the fact that 63.51% of the total gross domestic product comes from agriculture and forestry. Thus among the national resources agriculture has the greatest share of production.

In spite of such prominent place, agriculture suffers from the basic maladies which are common to all under developed countries. These may be summed up as - unscientific and primitive methods of agricultural operation which lead to decrease in productivity, disproportionate use of man power in agriculture which leads to disguised under-employment and also decrease in the marginal efficiency of labour, feudalistic pattern of land ownership which ultimately leads to a negative approach towards agricultural development among the farmers and thus makes these activities a way of life rather than a paying profession. This is how the strongest base of Nepalese economy if compared to other countries, is weakest in its performance.

Now that we have emphasised the vital role and the general characteristics of our rural sector, it may be said in brief that unless the rural economy is sufficiently strengthened and consequent changes are brought about in the agricultural field, a major break-through can not be achieved with regard to economic development. Perhaps this factor was uppermost in their mind when successive Government which came to power after 2007, i.e. 1951, began to search for such agencies as might bring substantial improvements in rural sector as well as enthuse a zeal for self

improvement and economic prosperity among the farmers. Naturally the cooperative system of economic activities figured prominently in their thinking. This led to the establishment of Cooperative Department in the year 2010, i.e. 1955.

Just after the establishment of Cooperative Department, a multipurpose pilot project was undertaken in Rapti Valley in 1956. The most important activity under the project was resettlement of landless people, supply of farm credit and agricultural necessities. For undertaking all these activities in a comprehensive manner, organisation of cooperative societies was thought to be the best method by the project authorities. As there was no legal framework difficulties were faced in organising the societies. To save the situation, His Majesty's Government issued an executive order whereby societies could be organised until an act legislated for the purpose provided for all the necessary arrangements. The first cooperative institutions were organised and registered under this order.

Thus, unlike the Western countries where cooperatives grew out of consumers demand and needs, the Nepalese Cooperative Movement has been from the beginning oriented towards agricultural improvements and the need for such improvement was the principal reason for the introduction of cooperative system in Nepal. This point has been very lucidly presented in the preamble of the above mentioned executive order. It reads "As insistent demands are being made from different sectors for working on cooperative lines and as in Rapti Valley Development Project, in particular, there is no effective agency other than cooperatives to start resettlement programme smoothly"....."The fact that the introduction of the cooperative system in Nepal was the compulsion brought about



by the essential need of improvement in agriculture is explained by the above given reference to the preamble.

As the need for agricultural improvement was the dynamic force behind evolution of cooperation in Nepal, agricultural co-operation has obviously been given a very prominent place in the whole structure of cooperative development. This partly is the reason for the predominant place assigned to agricultural co-operation and also explains the present set-up of cooperative development in which more than 90% of the societies are agricultural cooperatives.

With the promulgation of Cooperative executive order, co-operative credit societies were organised in Rapti Valley and milk supply societies were organised in Kathmandu valley. Since the days of such early beginning in agricultural cooperation started in 1955, much has been done in the following years. At present, i.e. by the end of July 1964, 1060 cooperative societies have been organised in which 42,000 members have been enrolled with their own share capital of more than Rs.12,00,000. Though the expansion may look a bit swift but when the totality of the agricultural needs of the country is taken into consideration, present development looks fair. As mere concern here only with the agricultural cooperatives of the country, only these aspects have been analysed below.

Before dealing with present position, problems and other aspects of agricultural cooperation, I would like to explain the broad basis of classification of cooperative societies in Nepal. As the movement is still far from matured stage, the classification has not been made on a very strict line of the classification on

the basis of the nature of activity undertaken. The classification is therefore made on the general outline of activities which are grouped together under the broad heads of different types of work. For example, the whole structure of cooperative society have been classified into 3 heads i.e. secondary types of institutions, agricultural societies and non-agricultural societies. Under this system of classification, first distinction is structural, that is on the basis of the organisational frame work, the cooperative institutions are classified into two categories namely primary societies and secondary societies. Primary societies are those in which individual members of a given area constitute the legal body corporate character. Secondary societies are such institutions as are primarily organised with a view to further the interest of primary cooperative societies, though in the normal course of business they may cater to the needs of non member individuals too. Thus, the main difference between the two categories is that, the primaries cater to the felt needs of a group of individuals which combines together to meet a common need while the secondaries are the associations of a group of cooperative institutions which is federated with a view to bring about greater efficiency in operations and to achieve economy of scale.

The structural classification paves the way for further classification based on nature of activities. In this regard, the Nepalese cooperative societies are classified into two categories namely agricultural and non-agricultural. As the name itself signifies, agricultural cooperatives are primarily concerned with agricultural activities. These may be producers, institutions, agricultural supply societies, marketing societies, milk supply societies etc. Thus the major consideration in such classification is whether the activities of cooperative society relates to

agriculture, in its broadest sense, or these are concerned with activities which have no direct link with agriculture such as consumers cooperatives, cottage industries etc. This classification has the advantage of distinguishing the whole cooperative movement in two major sectors i.e. agricultural and non-agricultural Sector.

Accordingly in the Nepalese Cooperative Movement, agricultural credit societies, multipurpose societies, agricultural marketing societies, milk supply societies, cooperative poultry societies and agricultural farming societies are in the categories of agricultural cooperatives. The survey of agricultural cooperation in Nepal as presented in this paper is therefore concerned with a review of the activity undertaken by the above mentioned types of Nepalese cooperative societies.

In the preceding pages it was explained that the very beginning of cooperative movement in this country was a result of the pressing need for improving agricultural sector. It was the principal reason that all the societies organised and registered earlier were agricultural cooperative societies. Since then many fold expansion has been brought about in the cooperative sector, but the agricultural societies have retained their prominent place in the movement. If we look at their growth of last 8 years we find that during the first three years starting from 1956, cooperative credit societies were the only cooperative organisation introduced into Nepalese rural life. Partly because the movement at that time was confined to Rapti valley and partly because it was felt that the supply of agricultural credit was the foremost requirement of Nepalese agriculture. Consequently, cooperative credit societies were given the highest priority which resulted in turning the cooperative movement almost into cooperative credit

movement. This may be discerned from the fact that 17 credit societies were organised in the year 1956-57, 35 societies during 1957-58, one society in the year 1958-59. This disproportionate stress on co-operative credit resulted in a rather loose hold of the organisation on the economic activities of its members. Such development further resulted in making the credit societies less effective. To check such undesirable developments in the field of agricultural cooperation, a new policy of organising multipurpose cooperative societies was adopted in the year 1959-60. And since then multipurpose cooperative marketing societies have been getting increased importance and therefore instead of concentrating on only cooperative credit an all round development of different types of agricultural cooperatives has been envisaged.

Now before we go into the details of different types of agricultural cooperatives in Nepal, it would be desirable to have a look into the over all general position of these organisations in the frame-work of our cooperative movement. At present there are 1060 cooperative societies. Out of them 990 societies are agricultural cooperative societies. The class-wise breakdown of these societies is as given below :

Multipurpose Cooperative societies	-	743
Cooperative credit societies	-	222
Cooperative marketing and credit union	-	14
Cooperative poultry societies	-	6
Cooperative milk supply societies	-	4
Cooperative farming societies	-	<u>1</u>
		<u>990</u>

The above given table shows that Nepalese cooperation is entirely agricultural cooperative movement. The membership together with the financial investment made in these societies and the capital

attracted by way of shares have been given below :

<u>Type of societies</u>	<u>Membership</u>	<u>Share capital</u>	<u>Loan advanced</u>
Multipurpose	30,815	8,06,100	19,58,000
Cooperative Marketing and Credit Union	606	1,12,290	5,10,000
Credit Union	8,307	2,62,430	10,04,000
Cooperative milk supply societies	291	6,920	60,000
Total :	40,019	11,87,740	35,12,000

The table reveals that the multipurpose societies have greatest numerical strength, have the largest share capital raised from members and have received highest amount of loan from the Government.

Now we take the function and structure of these societies.

Credit society :

These societies are single purpose organisations of unlimited liability exclusively in providing credit to their members. The only activity undertaken by them is provision of credit. Such limitation with regard to activities makes their impact rather limited. In the years of beginning of cooperative movement in Nepal this class of society was very much encouraged because of the unlimited nature of liabilities of its members. This aspect assured that except in extraordinary circumstances, these societies would not fail due to indifference of members.

Multipurpose societies :

As the credit societies could not undertake many essential activities needed in rural communities, multipurpose cooperatives were organised. This change in the organisational policy was brought about round the year 1959-60, and since then this type of society has become the most prominent organisation in Nepal. The multi-purpose cooperative undertakes such functions as may be required by a rural community.

Apart from providing agricultural finance, they sell fertilizer, agricultural implements, supply of consumption goods mostly the necessities of life, marketing of agricultural produce of their members. Thus, these societies are wide in scope, have sufficient volume of business and therefore have greater degree of efficiency. Though all these activities have not been taken up by most of the Nepalese multipurpose cooperatives, the structure however has provided for future expansion in these directions. Nearly all of these cooperatives supply agricultural credit to their members. These societies have been organised in nearly all of the 50 development districts.

Milk-supply society :

This is a milk producers' organisation. Those farmers who join together to sell their milk in collective manner organise such society and sell their milk through the cooperative society. At present there are four such societies in Bhaktpur and Banepa. The milk supply societies organised their sale of milk to near by milk collecting centres. The milk collecting centre pays a part of the money to farmers members and retains a part of money from them on behalf of the milk supply society.

Marketing and Credit Union

These are the secondary type of societies. The organisation of these institutions needs some explanation. As there were no central agency for financing and as the frequency of seasonal credit demand began to increase from the societies, the need arose evolving such institution which may have the advantages of central agency and also the benefit of economy in the institutional operations. As a result, cooperative marketing and credit unions came into existence. The first union was organised in the year 1959, and since then 14 unions have been organised and registered. The

membership of unions is composed of primary societies of a few individual members. Invariably all the cooperative societies are federated in these unions. The union on its parts provides loan to these member societies. Funds for such loan were given to the union from the cooperative development fund which has now been transferred to Cooperative Bank. Apart from providing loan to member societies the union takes up the marketing activities. As the primary societies do not have enough fund and managerial strength to take up agricultural marketing, the union undertakes this function. The operational aspect of this activity is like this. Societies collect the produce of their members and pledge it with the union. Against the commodities pledged the union advances loan up to a maximum of 75 per cent of the total value. When the member societies request for the sale of their produce, it is sold and after deducting the godown rent, handling and service charges together with the money advanced by way of loan, the rest is returned to the member societies. In this way, the unions are engaged in both the activities of credit as well as marketing.

A question in this regard may arise as to the desirability of combining the technical function of credit with risky venture of marketing within a single organisation. The dangers inherent in such practice are well known, but some of the basic limitations forced to adopt such policy. They were : (i) Extreme ~~pe~~ scarcity of capable persons in the country side to run two different sets of cooperative organisations, (ii) Paucity of finance for providing two different sets of secondary ~~ise~~ organisations, (iii) Ultimately the limited volume of business in both the spheres of credit and marketing which limited the chances of their separate operation to be financially profitable. All these factors consequently led to the combination of these two activities for the time being.

It has however been kept in mind that as soon as both the wings of the union get adequate volume of business to sustain their own expenditures involved, both the wings could be organised as independent institutions.

Apart from these major types of agricultural cooperative societies mentioned above, a few other societies are also working in this field. For example, a cooperative farming society has been recently started in Gorkha district, a few poultry societies have been working in Kathmandu valley, a fruit orchard society has been registered in Bhojpur. But the total impact of these organisations is not perceptible enough to deal with them at length. They have therefore excluded from the present survey.

The brief narration of four main types of agricultural cooperative societies shows that at the primary level the societies do not have much structural relation because all of them are composed of individual members. But at the secondary level, the structural relation is well knit, for, the marketing unions are associations of primary societies. Thus the structural relation is well defined. In the field of management the relationship is well reflected. For example, the board of directors of marketing unions is constituted from the representatives of cooperative societies. Thus the union which is federated unit of cooperative societies is actually controlled and seen by the representatives of member societies.

The last tier of structural chain has just come in to being. This reference is towards the Cooperative Bank which has been very recently established. As this is the Central Cooperative Bank all cooperative societies - primary as well as secondary could be enrolled as members of this institution. Though the problem of cooperative credit unions role in the financing of primary cooperative societies has not yet been clearly evolved, it is however hoped



that they would play vital role in the investment pattern of co-operative credit at the district level.

In regard to the financial relationship between these three tiers an outline approach is gradually coming up. The Central Bank should provide funds to the credit unions and the unions in turn, should meet the financial requirements of primary societies working in the districts. Though this pattern has not yet quite materialised, I, however, think that this system of integration between different tiers shall ultimately be operative and in my opinion this would be the best method of circulating credit funds from top to the lowest ring of cooperative organisations i.e. village level cooperative societies.

Another feature worth mentioning here is recent trend of internal relationship between different activities at the higher level. This relationship is reflected to coordinating three vital economic functions of supply, credit, marketing of produce and supply of consumer goods. This is called link-up in the modern development of cooperative theory. Some of well developed cooperative unions of Nepal are heading towards such link-up of the above mentioned three activities. An outstanding example of such link-up is witnessed in the functioning in the Rapti valley cooperative marketing-cum-credit union. This union first started with the supply of credit activities and later on took up the marketing business of the agricultural produce of the member societies.

Along with marketing activities undertaken now a new programme providing essential consumers' goods has been taken up with a view to cater to expansion of consumers movement, a separate



wing has been established, although the entire organisation is controlled, run and supervised by the board of directors of marketing union. Thus, while enough scope has been left for future expansion of consumers' movement as an independent cooperative business venture, adequate coordination has also been effected in the working of these three economic activities - enough instances are discernible to justify the statement made above, the cooperative marketing union purchases paddy and maize and then processes it in its plant and sells it through the consumers' union at the considerable low prices to the consumers. Such link up of marketing, processing and consumers activities is beneficial to all the three concerned, namely the producers, the consumers and the cooperative institutions. Secondly, the marketing union collaborates with consumers' union in securing farming equipments and other agricultural supplies needed by the farmer members of primary cooperative societies. Such integral approach has of course not been achieved in all the marketing and credit unions, but I hope in years to come, this would be the general pattern of growth within agricultural cooperative movement.

After having reviewed the present position of Nepalese agricultural cooperation, I would like to draw your attention towards some of the pertinent problems faced by the Movement. The most difficult problem which I think is universal ~~for~~ individual and institutions alike - is the problem of adequate finance. It is still more so in a developing economy which strives to shatter all the shackles and embark upon economic development at all the fronts, paucity of finance becomes a really grilling factor. This limitation is particularly harming the growth of agricultural marketing which is one of the most important possible method of

increasing the rural income together with stabilizing the price spiral in agricultural commodities. The almost non-existent nature of seasonal finance for marketing together with a very negligible amount of institutional funds available to the marketing organisations almost invariably leads a very large section of producers to the obvious clutches of exploiting money lenders, village traders, intermediaries of private commercial agencies which deals in agricultural produce and other groups of exploiters. In such situation where a large section of the farmers have to be forced to sell their produce in such manner, the total effect resulting from the lack of financial resources is bewildering. The same is true in regard to the requirement of production credit, capital investment needed by cooperative processing units etc. The magnitude of the problem can be well understood from the fact that out of 1061 societies, 627 societies only have been able to get financial resources other than their own. In order to solve this problem, manifold efforts shall have to be made and all the possible avenues shall have to be explored. I, therefore, sincerely believe that the house shall make some very concrete and positive efforts leading to reasonable solution of this vital problems

Another problem about which I have not referred in the earlier part of the survey is the problem of cooperative education. As we all know illiteracy is still a very big problem which is affecting almost all the walks of our national life. Naturally the cooperative sector is also suffering from this national malady. In the absence of even a sufficient number of literate people at the rural level, the requirement of having adequate number of people have reasonable knowledge of Book-keeping and



accounts, procedures of running the economic operation in a democratic way and also to have a fair degree of understanding relating to the principles and practices of cooperation is staggering. Co-operative educational problems when taken together are vast in nature and they form an independent subject of study in themselves. As we are concerned here with agricultural cooperation only, we have to consider the problems of education which have particular relevance to, and need pertinent application in, the development of sound agricultural cooperation. Educational problems, when seen in this perspective, are three-fold. Firstly, the problem of educating the individual producers, the farmer members of primary cooperative societies and public at large in the benefits and advantages in terms of real economic gains which can be had from the system of co-operative marketing. Secondly, after the agricultural producers are initiated into the system, they should be educated into the day-to-day operations of the particular type of society in which they are interested and which is in their opinion-most vital aspect regarding the loyalty of members towards societies ultimately lies in the proper selection - ~~is~~ suitable to their economic interest. Such practical education leads to fuller grasp of their societies' problems, appreciation of its achievements and also an awareness of weak spots affecting the organisational frame-work. Thirdly and finally, the problem of educating some of the responsible and promising cooperators in to the trade and specialised skills required for successful running of different sectors of agricultural cooperation. This is particularly true with regard to the specialized knowledge needed in running marketing societies, the labour intensive techniques required in operating a farming society, the managerial skill required for running processing cooperatives and refined understanding of the problems as well as the issues

involved in agricultural credit (its supply, its effectiveness, rate of interest, which should be charged etc.) by the managers of credit societies and unions.

In order to take up a sustained education comprising all the three aspects mentioned above, a crash educational programme, with widened scope and comprehensive in the content should be adopted on a mass scale. But this solution is also subject to the availability of literate people in adequate number. As I have again touched the problem in the concluding part of the survey, I now take up another problem which is of technical nature.

This problem relates to the economic viability of cooperative units in hilly parts of the country. We all know that co-operatives, in spite of the social contents they have, are an economic proposition in the final analysis. The economic justification and based on its capacity to earn its own bread should be the final test for its organisation and several activities it takes up. In other words a cooperative society is a economic unit with rich social content, which strives to provide economic benefits to its members after meeting actual costs involved in its functioning and therefore the cost factor can not be over looked while justifying the existence of cooperative organisations. That is to say, in simpler form, cooperative are not an item of granting perpetual subsidy rather it is a method of business which does business and while doing it means business.

When the economic justification is taken as the touch-stone of measuring the successful character of cooperatives, a rather uncontrollable situation is confronted in the hilly region of the country. The situation is complicated there because of the peculiar circumstances operating in these areas. The peculiarity is brought about by a combination of several physical and economic

factors. For instance, the villages in the hills are small economic units, generally a cluster of a dozen or so families. The mountainous terrain is neither very conducive to large scale production nor offers much scope for intensive cultivation as the soil is not very fertile. The difficult situation regarding transport and communication is accentuated by the almost non-existent roads in these areas. Thus the small size of villages, low rate of production together with the lack of transport facilities limit the chances of successful functioning of economic institutions. The economically unviable character of these organisations almost always result in a stunted growth of cooperatives. In such circumstances, the task of searching new means to vitalize economic strength in these societies becomes very urgent. Unless this complicated situation is properly solved, agricultural cooperation in the higher regions of this country can not be very successful. One possibility perhaps could be the concentration of efforts on developing only one aspect of agricultural cooperation, suitable to local needs and thereby achieve such a high degree of efficiency and specialisation as may make these institutions economically viable units. The house may discuss such a possibility and bring forward concrete proposals.

Another difficulty faced is related to the problem of providing technical facilities to the cooperative societies. These facilities include storage facility and the facility for technical know-how needed in successful management of different types of cooperatives. In the absence of scientific storage facilities, agricultural cooperation receives great set back. The farmers cannot hold their stock for a long period marketing activities can not be taken up on a large scale and lastly the

perishable nature of agricultural commodities results in a seasonal glut in the market followed by acute scarcity. This brings in price fluctuation. Another aspect of the problem is the dearth of trained personnel having enough technical knowledge to help and guide the agricultural cooperative societies. In the absence of such guidance forthcoming from trained experts, societies may sometimes land into heavy loss and this might involve the very existence of the societies. As the number of departmental personnel is limited and inadequate, this problem is acutely felt. These are some of the difficulties and problems faced by the agricultural cooperatives in Nepal.

The question may now arise as to what has been done to solve these problems? How far these efforts have been successful in meeting these problems? In this respect, some of the recent developments relating to the solution of these difficulties, even if partially are worth mentioning.

The most important programme which has been evolved with a view to avoid the financial bottle-neck is the savings programme. Under this scheme a systematic and comprehensive drive has been launched in the cooperative societies already existing. In addition to this, societies are organised with the particular object of mobilising internal resources and thereby meet the requirements of the local organisation. Under this scheme a note has been taken of the fact that in rural areas capital cannot be forthcoming in the form of cash. So, it must be created from whatever production is available at the rural level. The creation of capital from local products involves a high degree of efficiency in marketing activities as well as a dynamic and intelligent approach towards the whole problem of collection, storage and accounting of the produce saved by the members and deposited with the society. A policy of

organising separate cooperative organisations has, therefore, been formulated under which the cooperative savings society - as it is called - undertakes all such activities as are conducive to the successful handling of the operations mentioned above. The working of the society may, in brief be summarised in the following manner.

A savings society is organised with a view to save grains - or for that matter whatever commodities produced in the area of operation of the society - from the resident farmer members after the harvest of crops. The collections are made in kind, it is weighed at first in the village in front of the farmers and then stored in the society godown. The weighed commodities are credited to the account of the concerned members. When the prices mature, 75% of the produce is sold while 25% is kept in kind to meet food requirement which may arise in the village by such external factors as draught, floods etc. The value of the commodities sold and the cash received is deposited with the society by way of share money contributed by the members towards the capital of the society and it is also entered in the pass-books of the members so that they may know exactly the actual amount of the money they have thus saved. On such deposits the members get 5% interest. From the capital thus created nearly half of the money is advanced to the cause of production loan required by the members of the society while the rest is kept aside for essential but unproductive expenditures which are generally not covered by cooperative societies. These expenditures may be either social in nature such as marriage ceremony, birth festival, and annual ceremonies pertaining to death anniversary, or economic in nature by necessities such as money needed by a family after birth of babies. These expenditures can not be avoided. For such cases of financial requirements, people have to be compelled to seek the favours from private money lenders. The

saving society makes therefore such provisions whereby the society's members can fulfill their productive as well as non-productive requirements from the society. On both the types of loans, the society charges 10% interest.

With a view to make the fund of the society adequate, a policy of collection based on the size of holdings has been evolved. Under this system every farmer has to save and deposit with the society at the rate of one maund i.e. 82 pounds of grain per bigha. If the farming is done through the help of a tenant, the amount to be saved is divided among both the parties namely the land owner and the tenant. In such case, each party saves 42 pounds.

In order to further augment the resources of the society provision has been made for government's financial participation in the funds of such societies, though actual involvement by the Government has not yet taken place in the society. I hope, in near future efforts would be more in the direction of such involvement. The programme of savings drive has been experimentally introduced in 8 districts of Nepal, namely Jhapa, Palpa, Chitoun, Pokhara, Suganza, Trisuli, Biratnagar, Kalaiya, Out of these districts very encouraging results have been recorded in Chitoun and Jhapa. In the rest of the districts, the programme could not make much head-way either because the preparatory arrangements needed before introducing the programme was inadequate or because the districts suffered from natural calamities such as draught and hail-storms (in Pokhara and Syangja).

On the basis of the working of the past one year some experience has been gained to generalise a few pre-requisites essential for its successful management. First is the educational efforts which must precede the introduction of this programme. Unless the farmers are fully explained the method of working of the society and unless they

are convinced about the ultimate benefit accruing from these institutions, enough contribution of produce can not be expected from them.

Educational drive, therefore, must precede the actual savings drive to be undertaken. Secondly, the problem of storage facilities is a national problem. This problem ~~is~~ acquires still more importance in the context of savings programme. Because, in absence of sufficient and scientific storage facility, even those farmers who are convinced of the benefit of savings cannot be expected to part with their produce. This is verified from the fact that the savings programme has made progress in only those areas - Jhapa and Chitaun - where a reasonable number of godowns were at the disposal of the society. Finally, as this programme is entirely voluntary in nature, the producers can in no way be compelled to save except by persuasion. This voluntary aspect naturally limits the scope of 100% contribution by the members of society. To eliminate this snag, educational programme again acquires great importance. This limitation however cannot be avoided as the whole structure of cooperative movement and the very best aspect of co-operative spirit lies in the fact that this is a voluntary self-governing movement.

Thus, in brief the future development of this programme will rest on successful implementation of three things, namely, education among the farmers, storage facilities and successful handling of the activities undertaken by the society, particularly in the field of marketing, by those who run the day-to-day business of these organisations.

Another field of activity in which increasing attention is now being paid is the problem of cooperative education. Till now we have been tackling this problem at two levels. First the training of persons who are posted by the Department in different development districts

with a view to help, guide and supervise the cooperative societies. As the movement in Nepal was in the beginning, a Government sponsored movement, this aspect of education was of paramount importance. Gradually, as the Government sponsored programme is turning into a liberal self-governing movement, the problem of educating non-official sector of the movement is gaining increasing importance. Keeping this development in view and being fully aware of its importance, we have embarked upon educating the non-officials of cooperative societies since the last two years. Under this programme intensive practical training of short duration is given to the members, directors of secondary societies and the potential cooperative leaders at the district level. The method adopted is, seminars, on-the-spot training programme and group discussions lasting from 3 to 6 days. As in the earlier part of the survey we have seen the importance of cooperative education for people involved in the activities of different types of societies, this problem shall have to be given sustained attention and unremitting efforts. With this aspect in view we are starting refresher's training course for the non-governmental officials of cooperative societies. This course will last for a period of 3 weeks and during this time the participants will be given theoretical education regarding cooperative accounts and book-keeping and practical down-to-earth education regarding the day-today problems activities and difficulties of cooperative societies.

Another field of activity which has engaged our attention at the moment is the problem of balanced growth of agricultural cooperative with special reference to the supply of agricultural credit. We have already mentioned that quite a large number of cooperative societies have not been able to receive agricultural credit for production purposes a direct relation between the supply

of credit and its impact on increase in production has not clearly emerged. Furthermore, in the absence of regular agricultural supplies, technical guidance with reference to improved farming techniques, introduction of improved variety of seeds etc. an impressive increase in production can neither be envisaged.

With a view to solve this situation where the production credit needed, is itself very meagre and even the supply of such credit does not result in concrete increase in production owing to the above mentioned factors over which a society has no control; and experimental programme of supervised credit has been introduced in the areas where land reforms programme is being implemented. Though this is not a truly supervised credit programme in the comprehensive sense of the term - because out of three such societies organised in this programme two societies do not have the intimate coordination between credit, consumption, marketing and dissemination of technical knowledge together with constant technical supervision in relation to the actual productive activities. It is, however, very close to an integral system of coordinated cooperative development in which production, consumption, marketing and ultimate increase in production are knit together in the very fabric of cooperative structure.

The programme is experimental and its existence has been so short that nothing can be very positively said, except that it needs careful attention and supervision for success. As the first society of this kind, registered at Budhbare Jhapa, is barely six months old the final outcome cannot be forecast except that at the moment it is striving to integrate different activities in successful manner and that the psychological impact of this process has been very positive on the local people. The financial factor is, of course, there to limit its gradual projection on national scale but as an

intensively run project, this is bound to result in some very interesting experiences which may be useful in years to come.

Conclusion :

In the brief survey given above, I have tried to give a very precise picture of Nepalese agricultural cooperation with particular reference to its gradual development which itself is very short, its present position, the problems and difficulties faced, the efforts being made to solve them and finally the possible avenues for its development. Now, by way of conclusion, I would like to stress three most important aspects on which the agricultural cooperative movement shall have to concentrate.

The first and foremost aspect is the problem of augmenting financial resources. At present this is being attempted through increased share capital and saving drive and the generous foreign aid we are receiving for this purpose. But as we have seen in the earlier part of the survey, this is definitely not enough, we shall therefore have to devise other means for it. One of the possible ways might be the involvement of the Central Bank of the country, in one form or another in ~~impro~~ providing cooperative credit. This is being done in India, Pakistan, Ceylon, and a number of other countries of South-East Asia. Such link in those countries has resulted in a very impressive development. I therefore think that Rashtra Bank of Nepal might also be usefully involved in the task of providing adequate agricultural credit. I invite the attention of this house towards the suggestion.

Another related method may be to secure seasonal marketing finance against the godown receipts submitted by cooperative organisations to the government sponsored commercial Bank of the country, namely Nepal Bank Limited. Many of us know that in India, the State Bank of India honours such receipts and grants loan to marketing societies. I think some sort of arrangement of this nature could be



evolved in this country and thereby the acute scarcity of seasonal marketing finance could be solved.

Lastly, arrangements like government guaranteed loan in respect of the finance needed by processing units, issue of debentures by secondary type of societies, might also be effectively used.

Second aspect of this movement demanding our effort is the problem of cooperative education. I think enough has been said in the preceding pages towards the implication of this programme. Now a crash programme of cooperative education shall have to be taken at three levels, namely at the village level for the members, at the managerial for the directors of the secondary societies and non-official managers and secretaries of marketing societies, processing units and such other societies which need specialised skills in their management, and lastly at the top level the training^{of} cooperative personnel, who would assist and guide in the operation of cooperative societies. We are already giving attention to this aspect and I think more and more will have to be done in future in this regard.

Third aspect of Nepalese agricultural cooperation is the evolution of an integrated approach towards the whole problem of agricultural development through cooperative method. After all the basic object of agricultural cooperation is to achieve over-all agricultural development together with financial advantages to all concerned that is the producer members, the cooperative societies and the final consumers. Therefore, an integral approach of intimately coordinating such activities as production, processing, marketing and consumption should be tried to develop within the cooperative sector. This should be the final object towards which all our efforts should be channelized.

Steps have been taken in this direction by coordinating credit with marketing, by linking up of credit, marketing and consumers activities at the secondary level (in Rapti valley) and by evolving supervised cooperative credit programme in Jhapa. On the basis of experience gained from these attempts and integrated agricultural cooperation will finally emerge in Nepal. The foundation for such development has been laid down and I hope we are on the right path of attaining this cherished object.

Finally, I think our combined efforts will pave the way for sound cooperative development in which task, all of us assembled here, are intimately involved. May I also hope that the deliberations of this house and the practical suggestions coming from our practical experiences in the field, will lead to a strong, healthy and self sustaining agricultural cooperative development.

A SUGGESTED AGRICULTURAL CREDIT PLAN
AND
RECOMMENDATIONS FOR STRENGTHENING COOPERATIVE CREDIT SOCIETIES
FOR NEPAL

By
G. Leonard Dalsted
Agricultural Credit Advisor
United States Agency For International Development

INTRODUCTION

The writer on detail from the Farmers Home Administration, US Department of Agriculture, served as an Agricultural Credit Advisor with USAID in Nepal for about eight weeks. It must be recognized that full and detailed analysis could not be made of all the credit problems and needs in the limited time available. My assignment was to study and analyze the credit needs and problems, make recommendations for improvement of credit and cooperatives. The recommendations made herein are based on findings from interviews with HMG and American officials, local leaders, district and village cooperative society leaders, farmers, land-owners and farm workers plus general observations.

A total of thirteen villages with cooperative societies representing hundreds of farmers, several marketing unions and three craft societies were visited. In addition a conference of thirty cooperative society secretaries from the Kalaiya area was attended. Discussions with these officials provided considerable information which reflected the problems and needs of large numbers of farmers in that area.

Special appreciation is extended to Dr. James S. Hathcock who has spent five years in Nepal and has become well informed on the country, the people, the problems and general economic situation. His close association and unusual interest in this credit study made it possible to cover a greater area in the limited time available than might normally be possible.

SUMMARY

This report provides for the establishment of a Supervised Agricultural Credit program of direct Government loans in Nepal to supplement cooperative credit services.

Lien and mortgage laws to cover chattel and cooperative security are recommended to facilitate and expand cooperative credit as well for direct Government supervised credit since real estate is the only property that can now be pledged as collateral for loans.

A more flexible lending policy by credit cooperatives is recommended.

A pattern of policies for servicing all types of agricultural credit loans is suggested.

GENERAL SITUATION

Beginning with FY 1961 USAID in cooperation with GON has supported a program of agricultural credit through cooperative societies licensed through the department of cooperatives under the Cooperative Societies Act of Nepal. The primary activity in this area has been to provide funds to these cooperative societies/unions for loans to members thereof for crop production and other economic purposes. About 300 cooperative credit societies have been established since USAID has made funds available for credit purposes. The services of these societies have been valuable but the number of farmers assisted has been small and the lending policies quite restrictive. A policy of "concentration rather than scatteration" has been followed since FY 1961. A total of twelve districts have now been selected for intensive development and thirty-three for less intensive development.

The difference in these two classifications is based on the number of personnel assigned, amount of loan capital, number of societies and the establishment of cooperative marketing cum credit and storage facilities.

Trained personnel consists of fourteen inspectors and sixty-eight subinspectors assigned to Panchayat Development district headquarters. They receive training at the Rural Training Institute at Rampur.

During my first week in Nepal the Agricultural Reorganization Act 1963 was announced by HMG but details were not known for some time. It was decided that field visits should be made to observe present conditions. This Act provides for dividing land owned by large land owners among tenants and the landless where individual holdings would not be in excess of adequate economic farm units. This Act also provides that three Districts be selected as pilot districts. Jhapa, Palpa and Chitwan districts were selected. These are now being served by cooperatives but it is not known whether additional credit institutions will be established in these districts or not. Field visits by this writer indicate that the Credit needs are being fairly well met in the Chitwan district. It has not been learned whether personnel will be taken from existing cooperative personnel or additional people recruited and trained for this purposes.

It has not been possible to ascertain whether or not HMG intends to make direct loans from the Cooperative Bank now being established. A study of the specific sections of the cooperative Bank Act would indicate the loans will only be made to cooperatives but general objective statement of policy indicate otherwise so the bank may not be fully a cooperative Bank.

The Bank Act provides that HMG will subscribe 51% of the stock giving preference to cooperatives for the balance. Under this arrangement the member cooperative institutions cannot eventually own the parent institution which is generally the objective of cooperatives. The Bank Act gives considerable latitude and flexibility to the Board of Directors in outlining Bank policy which is good.

The Cooperative Credit Bank will be capitalized at Rs. 50,00,000 N.C. It will likely be necessary to increase this capitalization to permit new cooperatives to buy share capital thereby making them eligible to borrow from the Cooperative Credit Bank.

OBSERVATIONS

1. There is deep desire and recognition by HMG for economic development in Nepal particularly to improve and stimulate the agricultural economy. The Agricultural Act of 1963 is the Government's expression and determination to correct existing abuses and weaknesses in the present agricultural system. Much of the land is especially in the Terai owned by large land owners who demand such unreasonable shares of the farm income that incentives and progress for tenants become limited. The landowners also serve as the primary source of credit exacting usurious interest rates. The farmers are and have been exploited under these circumstances.
2. The attitude and temperament of farmers generally is favorable and conducive to development. Considerable enthusiasm for credit to increase production and improve living conditions was noted during field visits. Farmers seem to recognize the impact which increased

capital would have on their operations. Their attitude to repay loans appears good if they know there will be no grants or subsidies. Attitude and performance may be two different matters but understanding can improve results. Any grant program administered with a loan program in Nepal would be disastrous to sound credit. Interest and enthusiasm for cooperatives is spreading more rapidly than the capacity and resources to meet the needs of present and potential members.

3. Present credit sources are much too inadequate to finance the needs of the agricultural economy. The need and demand for medium term (18 months to 7 years) is presently one of Nepal's great need.
4. The present policy of concentration rather than "scatteration" in developing cooperative societies at the village level is a most fortunate approach. Progressive development will result in a more sound program and the errors made will not be as damaging. Even under this policy some loans received from HMG were too little and too late.
5. Collections received by HMG from cooperative societies have not been reloaned as fully or as quickly as they should be for maximum service to farm families.
6. Irrigation development in certain areas would tremendously increase farm production when coupled with fertilizers, credit and improved seed.
7. Availability and distribution of such farm supplies as fertilizer, equipment, improved seed etc. is restricting agricultural improvement. Cooperative societies offer some solution but timely delivery in adequate amounts is badly needed.

8. Personnel trained or experienced in technical agriculture and agricultural credit is seriously limited. Cooperative inspectors and subinspectors in general seem lacking in agricultural training and the vigorous leadership ability needed to implement a solid credit program.
9. Flexible lien or mortgage and recording laws are lacking. Provision for securing loans by collateral other than real estate security does not exist. Among cooperative societies visited collateral requirements averaged six or seven times the amount of the loans.
10. Landless people are unable to borrow from anyone except landlords and money lenders at exorbitant interest rates. They can borrow up to Rs. 200 from cooperative societies providing they obtain two sureties which is difficult to arrange. Consequently they remain undercapitalized and have insecure tenure.
11. Foundation exists in Nepal for an active and effective agricultural credit program if funds, trained personnel and favorable legislation were available.
12. It was interesting to find that cooperative society leaders in villages around Kalaiya estimated up to 80% of the farmers owned some or all of the land cultivated. However the situation in the Birgunj area was considerably different since it was estimated that from 50%-60% were landless. In both instances insecure and inequitable tenure exists to a high degree and there are a substantial number of farmers who could improve their economic position if adequate credit were available at reasonable rates and terms.

PRESENT SOURCES OF CREDIT

The primary sources of credit presently available to most farmers in Nepal have been the landowners, merchants and individual money-lenders with interest rarely less than 25% but 30% to 50% being more common and occasionally higher. Agricultural credit from banks is virtually non-existent.

The cooperative movement has just begun and 400 village level cooperative societies have obtained loans from HMG for local level lending. These societies service only a small fraction of the total farm population and are very selective. The loans are even too small for many of their own members. It is the policy of cooperative societies to lend only for crop production purposes on a short term basis in most cases. A very few medium term loans have been made. The loan policy is extremely conservative and security requirements are unusually high. In practice the lending policy amounts to little more than dividing the total annual allotment of funds among members instead of applying basis credit principles. The legal and administrative structure for multipurpose and credit societies has been very soundly organized and established by law. Lack of experience and resources in administering this program is evident. When more experience has been gained and local people are able to increase their investment and membership increased, farmers will likely be more adequately served by cooperative credit. Credit specialists will then be required. One reliable source stated there were many farmers who did not have sufficient funds to join the societies. There is also some reluctance by farmers to invest their limited resources in the cooperatives without assurance of loans.

There are no organized agricultural credit institutions for real estate loans in Nepal. The Cooperative Bank is in the early stages of development so there may be some plans to also institute real estate financing but this has not been made clear.

RECOMMENDATIONS

THE PROPOSALS MADE HEREIN ARE PRIMARILY DIRECTED TOWARD THE ESTABLISHMENT OF SUPERVISED AGRICULTURAL CREDIT WITH DIRECT GOVERNMENT LOANS AND TOWARD STRENGTHENING THE SERVICES WHICH CREDIT COOPERATIVES CAN RENDER. BOTH SHOULD CONTRIBUTE TO THE BROAD OBJECTIVES OF THE AGRICULTURAL REORGANIZATION ACT, 1963. SINCE THE DETAILS FOR THE IMPLEMENTATION OF THAT ACT ARE NOT KNOWN, THIS REPORT IS NOT SPECIFICALLY ADDRESSED TOWARD PRECISE DETAILS OF THAT ACT. THE RECOMMENDATIONS WHICH FOLLOW ARE MORE COMPREHENSIVE THAN CAN BE IMMEDIATELY IMPLEMENTED BUT THEY ARE SUBMITTED TO PROVIDE A FRAMEWORK ON WHICH TO BUILD A SUPERVISED CREDIT PROGRAM AND STRENGTHEN THE PRESENT COOPERATIVE CREDIT SOCIETIES AND ADMINISTRATION. ALL AREAS OF SERVICE CANNOT BE ESTABLISHED AT THE OUTSET BUT A PILOT PROJECT CAN BE ESTABLISHED AT THE VILLAGE LEVEL. FIRST PRIORITY SHOULD BE GIVEN TO CHATTEL LOANS TO MEET SHORT AND MEDIUM TERM CREDIT DEMANDS.

LEGISLATION

1. It is recommended that HMG of Nepal enact legislation to provide a program of SUPERVISED AGRICULTURAL CREDIT for eligible farmers. Such a credit institution should be established as a separate section under an administrator in the Department of Agriculture. This institution should be so designed so as not to be in competition with other bonafide and reasonable credit sources. Government credit of this type should only be used when all other reasonable credit sources fail to provide suitable and adequate credit.

This credit institution should be authorized to make loans to those who (1) have a farm background, high integrity, and either training or farming experience which the institution determines is sufficient to

assure reasonable prospects of success in the proposed farming operations, (2) will become operators of not larger than family farms and (3) are unable to obtain sufficient credit to finance their actual needs at reasonable rates (not to exceed 10%) and suitable terms from bonafide cooperative or private sources. This institution or agency should SUPPLEMENT BUT NOT REPLACE other legitimate private or cooperative credit.

- (a) For the purposes of such an act and for the administration of assets the chief administrator may assign and transfer such powers, duties, authorities, and assets to subordinate agents or to a separate credit subsidiary or institution or department for administration to carry out the provisions of such program if necessary.
- (b) The institution or its delegatee may administer these powers and duties through district or village level offices as it determines necessary and it may authorize an office to serve more than one village.
- (c) The institution or its delegatee is authorized and directed to appoint a local committee of three in a village, or villages at least two of whom are family farmers. The committee appointments shall be for a term of three years except the first appointments for any new committee shall be for one, two and three-year periods respectively so as to provide continuity of committee membership. The committee shall meet on call of the agent for the institution or its delegatee.

(d) The institution should be authorized to make loans under this legislation to buy, enlarge or improve farms including farm buildings; for land and water development, use and conservation; to establish and carry out conservation practices; to refinance existing indebtedness where necessary and pay fees necessary to close loans. Loans may also be made for (1) reorganizing the individual farming system for more profitable operations, (2) purchasing livestock, poultry and farm equipment and machinery (3) purchasing feed, seed, fertilizer, insecticides, pesticides and farm supplies necessary to meet essential farm operating expenses, (4) financing land and water development, use and conservation not feasible under the above real estate authority, (5) refinance existing indebtedness when necessary and (6) for loan closing costs.

2. Legislation is recommended to provide lien and recording laws that fit various types of loans for collateral purposes thereby increasing the borrowing capacity and the financial soundness of those seeking credit.

(a) A CROP MORTGAGE law to secure chattel indebtedness as well as current advances for seed, fertilizer, pesticides, insecticides, labor, repairs and tractor fuel should be provided.

(b) A CHATTEL MORTGAGE law should be provided to secure chattel loans and unpaid crop production loans by authorizing livestock, poultry, machinery, equipment, trucks and major household appliances to be taken as security. The valid period for this instrument should be at least three years from the date of filing or execution with the right of renewal or extension. LEGAL ENFORCEMENT PROCEDURES HAVE TO BE STRONG ENOUGH TO MAKE LIEN LAWS EFFECTIVE.

ANY LEGISLATION ENACTED SHOULD BE KEPT RELATIVELY SIMPLE BECAUSE IT IS IMPOSSIBLE TO ADMINISTER A CREDIT PROGRAM BY LAW. Human beings and farms are too variable to fit the fixed ranges of law. It should merely provide the various authorities necessary. The operating procedures could be drawn by those responsible for administering a program of agricultural credit that will contribute to the ultimate prosperity of Nepal.

APPROPRIATIONS REQUIRED

Administrative funds for this institution should be provided by annual appropriation. Some of the interest collected from current loans should be allocated for part of the administrative costs thereby eventually reducing the annual appropriation for this purpose.

Loan funds should be appropriated separately on an annual basis at first. As repayments on existing loans are received the funds collected should be deposited in a revolving fund for eventual replacement of annual appropriations.

COOPERATIVE CREDIT SOCIETIES

Cooperative societies and multipurpose societies now dispensing credit should be strengthened by increasing membership to build up capital. The present approach of adding new districts to the intensive development group each year and upgrading less intensive to intensive districts and bringing new districts into the less intensive category should be continued. In view of the limited resources of these societies it appears they should confine their loaning primarily to production type of credit for seed, fertilizer, labor, insecticides, improved equipment, pesticides, gas and oil etc. When capital has been built up sufficiently in these societies they could expand their lending to include more medium term credit.

It is important that legislation for improved lien laws be passed to facilitate lending by cooperatives as well as others. The inability of cooperative societies to take crop liens or chattel security as collateral for loans restricts their lending services and deprives borrowers of using real estate to secure loans for other purposes.

The present lending policy appears rather cautious. More confidence in borrowers capacity should be shown and loan amounts increased up to realistic limits in cases where applicants with ability can increase their income with additional funds and an analysis of the proposed farming operation shows the capacity for a sound loan.

If the recommended lien laws are passed, cooperative societies may consider taking only crop security among the better farmers for purely crop production advances. When additional security seems advisable, chattel security can be taken to supplement crop liens. Farmers' real estate should not be unnecessarily encumbered for production type loans.

Cooperative society officials should not penalize members in good standing by using the cooperative as a device to force collections from delinquent individuals since this is a risk of the credit business.

It is recommended that loan committee should be established to act on eligibility of applicants rather than have the entire membership do so which is now being done in many cases.

An accounting system should be established whereby loan funds and administrative funds are separate. A separate file or record should be made on each borrower as recommended for direct supervised credit loans.

Inspectors and subinspectors should receive considerable in-service training. If and when the new and proposed legislation is implemented they should receive intensive instructions and have such instruction reduced to writing. All personnel handling money should be bonded.

Cooperative societies officers were not in all cases maintaining records so inspectors or sub-inspectors had to bring them up to date even though the officials were capable of maintaining them. This is indicative of the need for part time and later full time employees in cooperatives as business expands.

Village artisans being displaced by modern methods might be assisted to form cooperatives for village industries supplementing farm income.

A continuous educational program is needed for members to learn more about the cooperative movement and credit. Members should understand that the direct supervised credit program recommended herein is supplementary to their program and is a source of future or additional members who have received training in new farm practices, techniques and will be better able to handle cooperative credit.

When the assets now administered and supervised by the Department of Cooperatives are transferred to the Cooperative Bank established by Law No. 47 of 2019, a complete and up-to-date inventory should be made. A reporting system by way of liaison arrangement should be established between the Bank and the Registrar of Cooperatives reflecting amount of loans granted, the name of each cooperative, and the amount repaid and other vital information deemed essential.

A memorandum should be sent out by the Department of Cooperatives to apprise them of the Act For The Establishment and Management of a Cooperative Bank giving the highlights of the act as they affect credit societies. Particular attention should be called to the requirement for each cooperative having a share to be eligible for a loan with this Bank.

ADMINISTRATION

SUPERVISED CREDIT

This proposed Agricultural Credit Institution for supervised credit should most appropriately be in the Ministry of Agriculture. This institution should be established as a section under the Director of the Department of Agriculture. The full resources of the Department of Agriculture should be closely coordinated with this credit program because supervised credit requires all available agriculture information. This credit institution could be a vital vehicle in correcting the evils and improving the circumstances of the landless and others whose progress is restricted by inadequate and/or high interest capital.

This agency should be started on a pilot basis only and expanded after qualified personnel is available and the experience of the pilot efforts analyzed. It should be confined to one or two villages closely situated and easily accessible. It would futile to attempt the pilot project on a district basis. (For example, two or three villages in Jhapa district might be selected as a starting point.)

The initial staff by necessity of limited available qualified personnel will have to be developed slowly with emphasis on building the staff from the village level up instead of building an administrative structure from

the top down. A Director who will be the Chief Agricultural Credit Officer (CACO) and a Central Finance Officer (CFO) should be all the central office personnel required for some time. Stress should be given to recruiting, training and developing Agricultural Credit Supervisors at the village level. The Chief Agricultural Credit Officer should train the ACS and spend considerable time initially in observing field operations.

The administration and responsibility for the processing and servicing of individual loans must be decentralized to the village level. When the village Agriculture Credit Supervisor is properly trained, maximum authority should be delegated to permit them to properly implement the program for those for whom it is intended.

It is essential, however, that upper level administrative officials keep currently informed of activities at the field level with respect to loan making, loan servicing and loan fund status. This can be done by use of simple report summaries, field trips to villages and by periodic conferences with field personnel.

Field Offices at the village level should be required to make periodic reports routed through the District Agricultural Credit Officer to the Central Office of the credit institution or department furnishing the following details:

- (a) The number of applications received during the reporting period.
- (b) The number of loans made and the amount of money involved including the value of loans in kind.
- (c) The number of applications on hand at the time of the report.

- (d) The amount of collections received and the number of borrowers involved. This should be on a cumulative basis since the beginning of the fiscal year.
- (e) The number of borrowers who did not pay instalments when due and the amount of delinquency for such borrowers.
- (f) The number of farm visits to borrowers.
- (g) The number of active loans reported separately by loan types such as real estate, chattel or production loans.
- (h) The number and amount of loans paid in full during the reporting period.

TRAINING PERSONNEL

Personnel well trained in Agricultural Credit and basic farm management will eventually be required to conduct a sound agricultural credit program in Nepal. It is recognized that there is presently an acute shortage of trained agriculturalists especially in rural areas and very few people with agricultural credit training.

To implement the Agricultural Act of 1963 two or three graduates of Meen Bhawan (Agricultural school) should be selected for specialized training in supervised Agricultural Credit at the U.S. training centers in Porto Rico or Hawaii for practical training in conditions somewhat similar to this area. These trainees should be returned to Nepal to be employed at the village level as Agricultural Credit Supervisors (ACS) to administer the direct loan program and provide on-the-farm guidance. This should be on a trial basis in a limited area to determine the advisability

and feasibility of further developing direct credit program to supplement cooperative and other sources of credit. It is recommended that the trainees spend sometime observing the operation of several county Farmers Home Administration Offices with particular emphasis on the preparation of new loans and techniques used during field visits.

Trainees selected should have a farm background of actually having tilled the soil and performed other farm duties as a member of a farm family. This is essential to establish the kind of confidence, respect and understanding needed in working with families who require guidance as well as credit.

As the program grows and new employees are recruited a pre-service training program of two months should be given to new candidates. They should be trained in a village office by an experienced credit supervisor and through the study of a simple course of study covering loan procedure, policies and loan servicing. Much of these two months should be spent in observing the ACS in his day-to-day activities and must include loan making as well as supervisory activities. After the first two months the trainee, if retained, will report to the official station where he will be employed.

In-service training should be a continuous process. Periodic training sessions particularly on a group discussion basis where village level employees exchange ideas and experiences and where supervisory personnel can refine, clarify and interpret policy and administration to field employees. This should be applied to cooperative credit officials also.

Additional in-service training should be conducted by the CACO with ACS's at the field level. The Chief Agricultural Credit Officer should spend a certain amount of his time every year in this area. When the program expands sufficiently and personnel become available this field training should be done primarily by District Credit Officers.

District Credit Officers should be trained in farm appraisal for real estate loans.

An agricultural college graduate should be selected as the Chief Agricultural Credit Officer but if one with such a training can not be found the next best type of individual with strong leadership ability and aggressiveness should be selected and given special training in the field of supervised agricultural credit. He should be given pre-service training for three months preferably in the United States where he could be trained at State and Area office levels to observe program planning, policy execution, personnel administration and overall supervisory techniques and activities.

If and when Nepal establishes an agricultural college the curriculum should include the following courses:

- 1) Principles of Agricultural Economics
- 2) Farm Records
- 3) Principles of Farm Management
- 4) Agricultural credit
- 5) Farm appraisal
- 6) Land Economics
- 7) Marketing of Agricultural Products
- 8) Principle of farm cooperatives
- 9) Money and banking principles.

To obtain balanced training for students preparing for careers in agricultural credit basic courses in agronomy, animal husbandry, agricultural engineering and horticulture should also be pursued.

ADMINISTRATION OF ANY CREDIT PROGRAM REQUIRES SKILLED PERSONNEL SINCE IT IS A SPECIALIZED FIELD WHERE THE CHARACTER, PERSONALITY AND TECHNIQUES OF THE AGENT FOR THE LENDER ARE AS IMPORTANT AS ACADEMIC PHILOSOPHY AND BACKGROUND.

VILLAGE COMMITTEE

A village committee of three local citizens at least two of whom must be farmers will be established in each village.

JTA's may be added as an ex-officio member when it is feasible for them to attend. Otherwise no one holding a public office should be eligible for this committee.

The primary function of this committee will be to determine eligibility of loan applicants. Other duties might include what action to take on defaulted accounts, counseling borrowers who are not making satisfactory progress and advising the ACS concerning local loan policies or limits and security requirements.

Two members shall constitute a quorum. The committee shall determine the eligibility of each applicant for a loan based on character, background and his ability to carry out the terms of the loan. The institution shall prescribe rules governing the procedure and other duties of the committee and it shall determine rates of compensation, if any, for committee men.

Each committee member appointment will be made by the GAOO from a list of the three names submitted by the Village ACS.

The village committee will not be vested with loan approval authority.

The ACS must be able to determine that a sound basis exists for a loan even after the applicant is found eligible. Committeemen and applicants must clearly understand this policy. However, no loan may be made without favorable recommendation of the applicant by the village committee. Committees must be able to make their deliberations in private and the decision should be recorded and reported only as a group decision to avoid personality conflicts. Majority rule will govern.

FINANCE AND ACCOUNTING OFFICE

It is recommended that a Central Finance system be established to perform all fiscal and accounting services including master control of all loan funds, individual loan records and all records relating to collections. It shall serve as custodian of the original Promissory Note or Bond executed by the borrower as evidence of indebtedness. The Central Finance Office would issue individual statements of account annually for delivery to borrowers through field or village level offices.

The Central Finance Office must be staffed with personnel trained in accounting procedures and techniques. Checks must be issued promptly when cash is being advanced. This office must be able to render trial balances of all accounts, periodic individual loan accounts and other

status information needed by field offices to properly handle loan accounts. This office must be capable of preparing fiscal reports periodically (annually or semi annually) for use by administrative officials and by district and village level offices. The Central Finance Office should keep administrative officials informed periodically on the total loan making activity for the village and district level offices.

Employees handling funds should be adequately bonded.

Receipt books should be made available for use by the Agricultural Credit Supervisor (ACS) at the village level and he should likewise be bonded as well as others handling funds at that level. The original of each receipt will be given the borrower, a copy sent to the central finance office and one copy retained at the village office.

The Central Finance Office should prove more economical and a safer custodian of the vital instruments of indebtedness than a decentralized system. It has the added advantage of being a single source to prepare financial and program summaries of the loan program for administrative use by officials charged with the responsibility of directing the credit program.

LOAN MAKING

A sound agricultural loan is one that is beneficial to the borrower and reasonably safe for the lender. Proven credit principle must be applied to each loan to obtain most effective results. These principles are derived from experience and training. THE ANXIETY TO MAKE A LOAN SHOULD NOT OVER-RIDE THE ECONOMIC JUSTIFICATION FOR IT. Even in a selfhelp society,

the autocracy and discipline of a business such as a credit institution must be recognized within the concept of a democracy. Credit must be dispensed on terms required by the lender whose experience, knowledge and foresight make him better able to predict or analyze and recognize what constitutes a sound loan.

ELIGIBILITY AND LOAN PROCESSING FOR ALL LOANS

When a loan application is filed at the village office, the local agricultural credit supervisor must make a thorough investigation including reference contacts. The farm or land that will be operated after a loan is made must be visited. The application including the information obtained on the applicant will then be submitted to a village committee to determine the credit worthiness of the borrower. Exhibit A is attached as a suggested application form.

If the committee considers the applicant eligible, the applicant and the Credit Supervisor will meet and prepare a farm and home plan as a basis for estimating probable expenses and income, agree on improved practices to be instituted, determine the items to be purchased with the loan and above all correct past deficiencies and change those customs which have retarded progress. Basic adjustments are needed in every loan. A suggested, simplified farm plan is attached. The farm and home plan is the most important document in the loan docket. It is the contract between the lender and the borrower. It is the basis on which the loan is approved in contrast to conventional loans in Nepal which are usually based on the amount and kind of collateral the borrower offers for security. (See exhibit B).

The purposes for which loans are made are very important. The loans should be made primarily for productive and necessary purposes.

CHATTEL LOANS

The following should be authorized loan purposes for chattel loans in NEPAL:

- (a) Livestock including water buffalo, sheep, goats, horses and bullocks.
- (b) Poultry.
- (c) Machinery and equipment.
- (d) Seed, feed, fertilizer, insecticides, pesticides, labor, and custom plowing services.
- (e) Refinance existing chattel debts providing other adjustments are being made and sufficient equity exists in the property owned.
- (f) Make minor building repairs when the amount is too small to justify a real estate loan.
- (g) Build and stock fish ponds.

Terms

The interest should not exceed ten percent and the repayment period for capital goods may be scheduled in annual installments up to seven years with the understanding that advance payments above the annual installment will be made in above normal years. A limit of the total indebtedness for chattel loans should be established.

Security

A first lien (chattel mortgage) on productive livestock, poultry, machinery and equipment purchased or refinanced with a loan as well

as first lien on crop financed by the credit institution must be required. All other livestock, machinery, equipment, and poultry owned or acquired by the borrower should be secured. This credit institution should finance all the applicants chattel and crop production needs rather than split financing with other private or cooperative credit sources. However, borrowers should be required to refinance with private or cooperative credit as soon as they have built sufficient equity to do so and providing the sources furnish credit at reasonable rates and terms.

To the extent possible loans in kind should be made to supervise loan fund expenditures to the maximum. All precautions possible must be taken by the credit supervisors and village committee to have assurance that loan advances are used for the purchase of those items agreed upon between the borrower and the credit supervisor. (See exhibit C).

REAL ESTATE LOANS

Real estate loans should include the following authorizations:

- (a) To buy land.
- (b) To build, repair or remodel essential buildings.
- (c) To provide necessary sanitary water and water facilities including structures for irrigation, ditches, tile and labor needed on individual farm to connect to any group or publicly owned irrigation system.
- (d) Refinance existing debts to the extent of available equity in the real estate.
- (e) Provide basic soil treatment, and conservation practices.

Terms

The interest rate on real estate loans should not exceed eight (8) percent. A repayment schedule up to twenty-five years should be authorized with a variable payment arrangement to encourage advance payments during the years of above normal income. The maximum loan should not exceed the agricultural value of the farm, determined by a qualified employee of the credit institution.

Security

A first lien must be obtained on any real estate purchased with loan funds and the best available security on any other existing real estate owned by the applicant.

OFFICE RECORDS FOR LOANS

A separate loan file should be set up for each borrower and retained in the village office containing the following:

- (a) Loan application including investigation report.
- (b) Farm and Home plan.
- (c) A copy of the promissory note with the original copy filed with the central finance office until the account is fully paid.
- (d) A copy of the loan voucher. The original should be sent to the Central Finance Office for payment of loan requested along with the NOTE.
- (e) Lien instruments.
- (f) Correspondence and running record notes made on contact with the borrower.

LOANS FOR SUBDIVISION OF LARGE TRACTS OF LAND

Since several large landholdings in Nepal may be purchased for division into family farm tracts, one option may be taken to cover the entire tract and the total tract surveyed, appraised and sub-divided into economic units for purchase by individual farm families. Each such individual loan can be taken to be handled as separate real estate loans as outlined above.

LOANS TO ASSOCIATION

Loans to associations should be authorized to help groups or associations of farmers develop systems for irrigation, drainage and/or soil conservation measure.

This should be authorized at a rate of interest of not more than eight per cent and terms up to twenty-five years.

SERVICING LOANS

Every type of cooperation should be given borrowers to maintain the individual borrower's account in current status. Understanding with borrower regarding his repayment responsibilities must be established when the loan is made. In handling delinquent accounts lender policy should be as fair as possible, consistent with sound credit practices. Pertinent factors in each individual case should be given consideration. Depending on the factors in each case delinquent accounts will fall either into the justifiable or the Non-justifiable category. Settlement must be made on the basis of the delinquency category.

All delinquent borrowers are expected to repay as much as possible without undue hardship based on their income.

The following factors may be justification for extension or forbearance of their accounts.

- (a) Illness: Severe extended illness of the farmer or his family which has seriously hampered present farm management practices and it appears corrective action is being taken.
- (b) Severe and unavoidable attacks by pests, weather, disease or animals resulting in major crops or livestock losses.
- (c) Livestock and crops properly raised but market demand does not permit sale of the major farm products.
- (d) Major loss of income for the year due shortage of irrigation water and it appears water shortages will only be temporary.

The following factors do not provide a justification for forbearance or extension of time for repayments on delinquent accounts:

- 1) Crops not produced due to neglect in planting or cultivation.
- 2) Abandonment of farm.
- 3) Improper harvesting of crops due to methods used or timing.
- 4) Minor losses due to weather, pests, disease or animal destruction.
- 5) Sale of major crops not made even though opportunity to market crops was or is available.
- 6) Excessive family expenditures for recreation, entertainment, luxury goods, religious festivals or pilgrimages, and non-essential items.
- 7) Unsatisfactory money management due to undesirable habits of the borrower resulting in excessive indebtedness.
- 8) Lack of ambition and initiative by the farmer and his family.

Every delinquent loan should be reviewed with the village committee. Where liquidation is recommended as the only alternative to protecting the credit institution's interests the committee and Agricultural Credit Supervisor should so indicate and forward to the District Agricultural credit officer for review. If he concurs, he should so indicate and forward to the Chief, Agricultural Credit Officer for decision and action. No further loans should be processed for the borrower unless satisfactory settlement has been made and the village committee recommends another loan.

Judgment in every case must be discreet rather than arbitrary. Each delinquency must be considered on its own merits and fairness applied.

MAJOR STANDARDS FOR A SOUND AGRICULTURAL CREDIT PROGRAM

1. Applicants for any loan should be thoroughly investigated as to character, farm background, training, experience and ability. Prompt action and decisions should be reached and the applicant notified accordingly. Business-like handling of an application will have a direct impact on the future relationship with the borrower in supervision and collection. Slow and negligent handling of an application will likely lead the borrower to indifference toward his responsibility.
2. Borrowers must have a respect for debts and feel responsible for paying them.
3. Every loan must be developed on realistic farm management plan predicated on a sound economic land base. Loans which cannot be repaid from income should not be approved. The amount of a loan should not exceed the borrower's need but it must be large enough to properly capitalize him with needed livestock, equipment and supplies.
4. Borrowers must recognize that CREDIT IS NOT INCOME but that credit is another tool to be used to increase production and income. Loan funds must be used for purposes that lead to increased production and greater net income rather than for unproductive purposes, social needs, luxury items or ceremonial expenses.
5. Every loan must have a realistic repayment schedule keyed to reasonably assured income. A system of variable payment where-

by borrowers pay more in good years is important. Real estate loan borrowers should pay the equivalent of reasonable rent less taxes.

6. Equities must be built by generating enough income to pay family living and farm operating expenses and still have enough income remaining to pay debts and replace worn out equipment.
7. A sound agricultural credit program must insist upon corrections of past deficiencies and customs if the borrower is to receive full benefit of a loan and the lender is to recover the loan by voluntary repayments. A clear understanding between the lender and borrower must be established at the time the loan is made. An unsound loan is a disservice.
8. The credit system including security requirements must be flexible and fitted to each individual borrower's circumstances and loan needs.
9. A servicing program to see that borrowers carry out the agreements made at the time the loan is made must be carried out. On-the-farm visits with the borrower will be most effective in following up agreements reached and to provide farm and money management guidance. Records should be maintained of income and expenses even though the ACS has to do the writing.

APPENDIX "B"

DEFINITIONS

- A. BORROWER - Individual farm operator and his family who receive a loan from a credit institution and is responsible for its payment.
- B. LENDER - The credit institution or agency which furnishes funds to the borrower.
- C. FARM UNIT - Represents the total land resources on which the borrower conducts his farming operations.
- D. AGRICULTURAL CREDIT SUPERVISOR (ACS) - The agent of the credit institution who deals directly with the borrower and is administratively and technically responsible for supervision of the loan and counseling the borrower.
- E. FARM AND HOME PLAN - An annual budget jointly developed by the borrower and the ACS which reflects the total producing capacity of the proposed farming operation, the anticipated expenses and the improved practices agreed upon.
- F. OWNER-OPERATOR - The tiller and his family who own the farm as well as provide most of the labor and all of the management for the farming operations.
- G. "TILLER" shall mean the individual and members of his immediate family who perform the labor functions in actually cultivating the land and otherwise producing agricultural products.
- H. "LANDLORD" shall mean the individual who owns land and rents or otherwise makes his land available to the tiller for cultivation.
- I. "TENANT" shall mean the tiller who cultivates land belonging to the landlord.

APPLICATION FOR A LOAN

1. Name of Applicant _____
2. Name of Village _____

3. FINANCIAL STATEMENT

<u>What I own</u>	<u>Value</u>	<u>What I Owe</u>	<u>Value</u>
Farmland _____ Number _____	Rs. _____	Debts on land	Rs. _____
Cattle _____	Rs. _____	Debts on Livestock	Rs. _____
Sheep _____	Rs. _____	Debts on Machinery	Rs. _____
Goats _____	Rs. _____	Debts on Living	Rs. _____
Buffalo _____	Rs. _____	Owed to others	Rs. _____
Poultry _____	Rs. _____		
Machinery _____	Rs. _____		
Other Property _____	Rs. _____		
TOTAL	Rs. _____	TOTAL	Rs. _____

4. I hereby apply for a loan for the following purposes:

a. _____

b. _____

c. _____

d. _____

5. Applicant Certification

If a loan is approved, I agree to use the money or goods borrowed solely for the purposes for which the loan is made.

Date: _____

Signature
or
Mark _____

6. Comments by Agricultural Credit Supervisor

(Comment on the adequacy of the farm, the applicants reputation for honesty, integrity, ability, and for paying bills; approximate amount of loan needed and other facts useful for committee action).

7. Village Committee Certification

We have considered the information submitted with this application together with our knowledge of the above applicant and his farm, and certify that he cannot obtain credit sufficient in amount to finance his actual needs from other sources.

We also certify that he is a credit-worthy applicant and recommend that he be given consideration for a loan. It is our opinion that the applicant will honestly endeavor to carry out the obligations required of him in connection with the loan if it is provided.

Comments:

Date.....

Signature.....

Signature.....

Signature.....

Note: If the Committee does not consider the application favorably, strike a line through the certification, note reasons under 'Comments', and sign.

FARM PLAN

EXHIBIT 'B'

BUDGET OF INCOME AND EXPENSES FOR YEAR

CROP ESTIMATES

CROPS	BICHAS OR ROPANIES	YIELD PER UNIT	TO BE SOLD	ESTIMATED INCOME
				Rs
Estimated Crop Income:				Rs

LIVESTOCK ESTIMATES

LIVESTOCK	NUMBER	TO BE PRODUCED	TO BE SOLD	ESTIMATED INCOME
				Rs
Estimated Livestock Income ...				Rs.

Total Estimated Income Rs _____

ESTIMATED OPERATING CROPS & LIVESTOCK EXPENSES

<u>FARM OPERATING</u>	<u>TOTAL</u>	<u>AMOUNT BORROWED</u>
Seeds	Rs	Rs
Fertiliser		
Stockfeed		
Pesticides		
Veterinary expenses		
Insecticides		
Taxes		
Plowing Services		
TOTAL	Rs	
Family Living	Rs	
TOTAL OPERATING EXPENSES	Rs	Rs

/Capital expenditure

CAPITAL EXPENDITURE

<u>ITEM</u>	<u>TOTAL</u>	<u>AMOUNT BORROWED</u>

SUMMARY

Crop and Livestock income	Rs
Other income	Rs
Total income ...	Rs
Less operating expenses	Rs
Cash profit	Rs
Plus amount borrowed for operating expenses	Rs
Total amount available for paying debts	Rs

DEBT REPAYMENT

<u>OWED TO</u>	<u>AMOUNT TO BE PAID</u>	<u>WHEN</u>	<u>FROM</u>
	Rs		
TOTAL	Rs		

CREDIT VOUCHER FOR AGRICULTURAL SUPPLIES

Voucher No. _____

PART I

TO: Supplier _____

A loan in the amount of Rs. _____ has been made to _____
for fertilizer and/or seed.

Name of Credit Agency _____

Location _____

Signature of Authorizing Official _____

Date _____

Foot Note:

- (1) Please describe items on reverse of this form in Part II and have borrower acknowledge receipt of the supplies in Part IV. Payment will be made on presentation of this voucher to:

Name of ACC _____

At _____

PART II

Date _____

The following supplies have been released to _____
(Name)
as authorized under PART I.

<u>Item</u>	<u>Quantity</u>	<u>Rate</u>	<u>Value</u>
1. Fertilizer			Rs.
2. Seed			Rs.

3. Other			Rs.

Total Value Rs. _____

Name of Supplier _____

Location " " _____

Signature of Seller _____

PART III

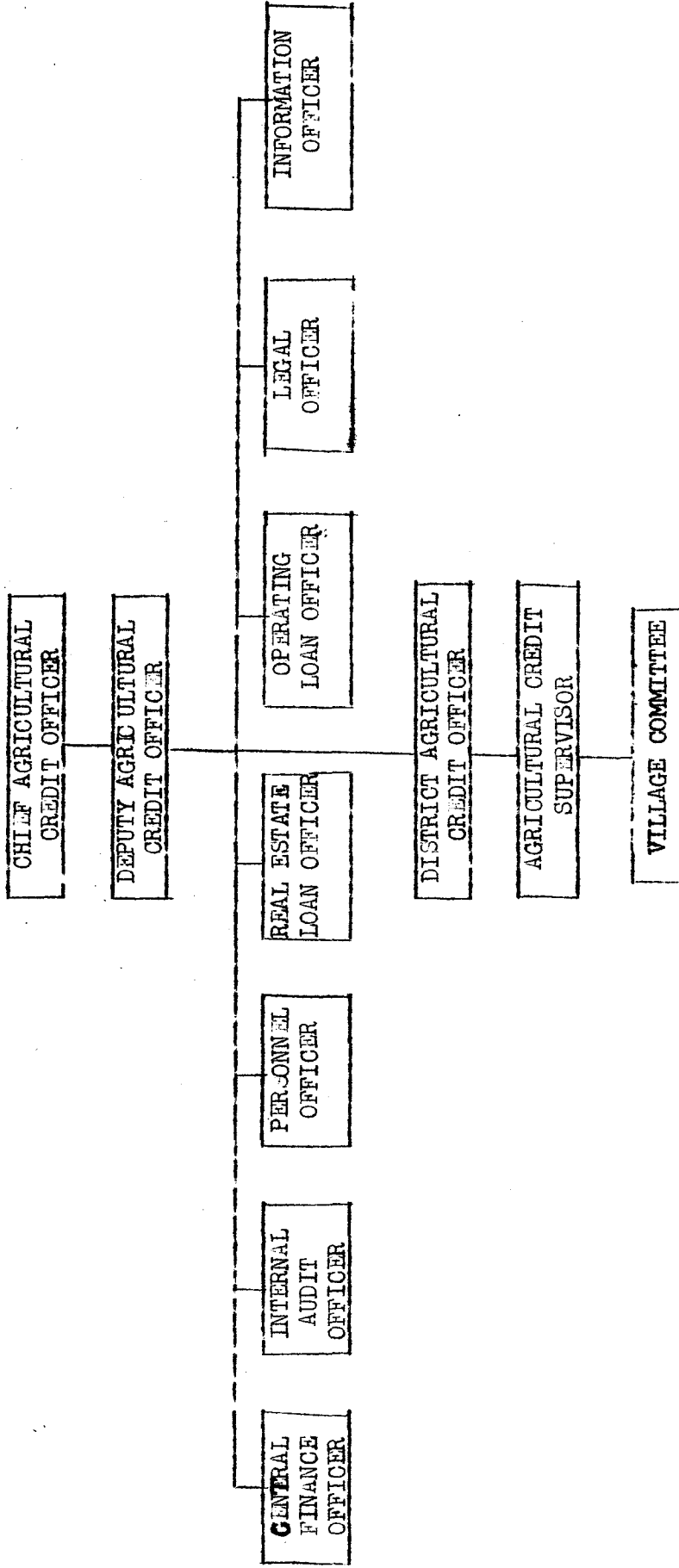
Date _____

I, as specified in Part I, have received the above quantity of
supplies from _____ valued at Rs. _____ against my
loan of Rs. _____ sanctioned by the _____
at _____ on _____.

Witness (In case of Thumb Impression)

Signature or Left Thumb Impression

SUGGESTED ADMINISTRATIVE STRUCTURE FOR A SUPERVISED AGRICULTURAL CREDIT PROGRAM



THE PANCHAYAT SYSTEM
AND
SELF - HELP DEVELOPMENT

A Report Prepared For:

His Excellency the Minister
Ministry of Development
His Majesty's Government
Nepal.

By:

John C. Cool
Community Development Advisor
United States Aid Mission
Kathmandu, Nepal
March, 1962

Background

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In seeking a new form of local government administration which will be well suited to the cultural and historical conditions which exist in Nepal, His Majesty's Government has embarked upon a national program to establish elected local councils or Gram Panchayats. The basic objectives of this program are first, to bring into existence competent, legally sanctioned, local government bodies, to which decision making authority may be decentralized and second, the establishment of an institutional framework within which the rural people may actively participate in the processes of development.

Implicit in these objectives is the desire of His Majesty's Government to bring about a radical change in the attitudes of the agrarian populace toward their environment and toward their government. Government leaders widely hold the view that "there is no such thing as an inherently poor land, there are only poor people." It is their view that development is largely a state of mind and that the rural people have to develop themselves before they can change their environment.

The Minister of Development sees the mobilization and development of the 'human resources' of Nepal as the major task of the government. In an agrarian society, where ninety-five percent of the people live at a marginal subsistence level, social mobilization must begin with a change in the attitudes of the people toward the external world, for the great majority of them do not regard their world as being subject to knowable and consistent laws which make it possible for them to exert control over it. They consider

that control over the external world can only be achieved through supernatural forces, hence they devote a high proportion of their energies to magical and religious practices. Their 'value system' continues to be geared to what has been called, "a longrange fatalism", that is, the assumption that life for their grandchildren will be about the same as it is for them, as it was for their fathers and for their father's fathers, back through time immemorial. So long as the great majority of the population do not understand and believe that they have the ability to alter their environment in a positive way through their own efforts, economic growth, per se, is not the most urgent problem to be dealt with. The Ministry of Development recognises that the Panchayat system must be 'development oriented' if it is to overcome this traditional passivity of the people.

In addition to the institutional obstacles to change which exist within traditional Nepalese society, there is a long history of repression and indifference on the part of the government which has left the villagers apprehensive of officialdom and bureaucracy. His Majesty's Government is determined to break down the barriers of suspicion, apprehension, and indifference which have so long isolated the rural people from their government. Hence, the highest priority has been attached to the proposal for conducting self-help development activities through elected councils of the people themselves.

By restoring the traditional institution of the Panchayat in a modern form, suited to the present needs of Nepal, the

villagers will be directly involved in the processes of government in a way which is meaningful to them. By encouraging local initiative in identifying local problems and in reaching solutions locally, village leadership, which is competent and confident, will be developed.

The process of local government administration is seen as one in which local leadership will assume responsibility for recognising the needs of the community, assessing the resources available to meet those needs, assigning priorities in the allocation of those resources, and for obtaining external guidance and assistance to meet needs which are beyond the capacity of the community itself.

If, in this way, a large number of the rural people can be involved directly in simple self-help type activities which improve their lives, even in very elementary ways, a beginning will be made in altering their passive and fatalistic attitudes toward their world. By demonstrating for themselves that they can later their environment by a more rational utilization of their resources, they will open their own minds to the possibilities of change. Apathy and poverty, those Siamese twins which constitute the 'low level equilibrium trap' of marginal agrarian economies, will give way to confidence, self-reliance and, in time, perhaps even moderate prosperity.

The traditional isolation of the governed from the government is to be broken down by involving the people in government. Local leaders are to learn the techniques of self-government, not by talking about them, but by experiencing the responsibilities of self-government.

Through local government, His Majesty's Government seeks to develop stable, self-reliant communities, capable of assuming greater measure of responsibility for their own affairs and for the support of their own basic humanitarian and developmental services.

The resources available for instituting this national program are not numerous. The principal deficiency lies in the absence of sufficient numbers of well trained personnel who understand self-help development and the techniques of local administration. The second main difficulty lies in the field of organisation. Support for local development requires effective administrative machinery capable of reaching efficiently to the most remote areas of the nation.

Personnel and organization, rather than funds or materials, will constitute the primary problem in establishing the Panchayat system on a sound developmental basis. For this reason it is planned to utilize the staff and administrative machinery of the Department of Village Development, which has been built up through ten years of cooperative effort between the United States and His Majesty's Government, as the central vehicle for supporting the developmental aspects of the local government program.

A note about the Village Development Service seems relevant. This body of over fourteen hundred development personnel has come into existence during the past decade as an extension arm for all the technical ministries of His Majesty's Government. When it was started in 1952, the technical ministries were either non-existent or nascent. They were therefore willing, indeed, glad, to have Village Development serve as their field arm. Hence Village Development came

to be engaged initially in agricultural, educational and public health programs to fill a void. As programs to strengthen the technical ministries have come to fruition and these ministries have established their own field services, there has been, predictably, increasing resentment and confusion about the role of Village Development. It should be recognised that this latest conflict and hostility is more a measure of the success of programs which have sought to strengthen the technical ministries of His Majesty's Government than it is of any supposed failure on the part of Village Development.

Indeed, as a non-taxing, non-repressive, non-punitive manifestation of the national government (the first such manifestation ever seen in large areas of the country), the Village Development Service has been modestly successful. The impact of the Village Development Worker upon the rural people has been much greater than is generally recognized. Ten years ago no one in the village had ever considered that their government had any interest in their development and welfare. Through Village Development they first learned that their government 'cared'; that it was concerned with their future. Not only have the concepts of self-help and community cooperation been introduced; more important, a large number of rural people have become receptive to the idea of change. Thus, though much remains to be done, a sound foundation has been laid in many areas through the efforts of the Village Development Service.

It is therefore most essential that any program to establish permanent local government be seen as a logical step forward from village development. Local government builds upon, and institutionalizes, the concept of participation by the people which was

the foundation of village development. As an organization, and as a body of competent personnel, the Department of Village Development represents the principal asset of His Majesty's Government in giving direction to a national program of self-help development.

Also available to the government are the personnel and organizations of two other effective administrative bodies. The Department of Local Self-Government has had, and continues to have, the primary responsibility for organization of the national system of Panchayats. With a central secretariat, zonal representatives, and seventy-five District Panchayat Supervisors, Local Self-Government is well suited to provide continuing supervision over Panchayat elections, regulations, statistics, records, and to perform a wide range of basic administrative duties.

The staff and administrative machinery of two departments of the Ministry of National Guidance can also make a unique and vital contribution to the program. These two departments are presently responsible for the organization of the class organizations throughout Nepal. When this important work is completed their primary function will be in training local leaders. This is a top priority need and one that can be most effectively met through cooperative effort with the Panchayats.

The Minister of Development now proposes that the available resources, personnel, and administrative machinery should be brought together into a single Panchayat Ministry in order to permit three most effective and intelligent use. This Ministry will have four departments, which will, it is understood, be concerned with

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administration, development, training and cooperatives. The Minister considers that the central function of cooperatives should be to make productivity loans to whole communities rather than to individuals.

Under this ministry, the Panchayats will be formed in four tiers at the village, district, zonal and national levels. With the exception of the Gram Panchayat, which will be elected by direct adult suffrage, each successive tier of panchayat members will be chosen from and by the members of the next lower tier. When a Gram Panchayat member is selected to serve on the District Panchayat, a vacancy will be declared at the village level and a by-election will be held. Thus, although National Panchayat members will have to serve successively in each lower level first, they will hold office in only one Panchayat at any given time. Having once served in a higher Panchayat, an individual will thereafter be eligible to stand for election at that level without again serving at the Gram Panchayat level.

To date, only the Village Panchayat have been established by law, which defined authority and sanctions. Since there is no tradition upon which to base the higher level Panchayats, their establishment will be a unique step. Village elders, in the historical past, have never had binding authority to make decisions which affected the lives and welfare of people outside their own villages. At the District Panchayat level and above they will have to accept broader responsibility than they had in traditional society.

To meet the needs of contemporary society, the form of the Gram Panchayat - or council of five village elders - has been modified. It has been enlarged to include nine representatives, each elected from one ward of the village to serve a six year term. Because of the greatly

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increased population of today it has been thought best to divide each community into nine geographic wards so that each citizen will have personnel knowledge of the individual who represents him. The terms of the first members elected will be decided by lot; thereafter they will serve staggered terms, with one-third of the members being elected every two years. Thus, elections will be held at each level every two years.

Under the Village Panchayat Law of January, 1962, the village councils are given broad authority to deal with matters of a strictly local nature. They are also charged with primary responsibility for the initiation and execution of self-help activities. These development activities are to make maximum use of local resources and skills and the Gram Panchayat has both the authority to impose a local tax (equal to ten percent of the land revenues of the area) and to receive a tax rebate from the government (equivalent to ten percent of the land revenues). It is planned that this power of taxation will make the villages largely self-supporting in time.

Procedures for the organization and coordination of village development activities have not been detailed at the present. It has been proposed that at least one civil servant, preferably a former Village Development Worker or a Primary school teacher should be assigned to serve as Secretary to each Gram Panchayat. With his assistance, the villagers will draft an annual program of work, stating the priorities, assessing the local resources available, and requesting such external assistance as may be required. Those work proposals requiring external support will go initially to the district, for consideration by a District Development Committee under the chairmanship of the District Development Officer (the former Block Development Officer).

The Minister sees no difficulty in achieving coordination between the technical ministries and local government administration, for, in his view, their combined activities will form but a single program at the district level and below.

Once district level approval has been obtained for village activities, external support will be financed either through district development funds (tax rebate) or from self help subsidy funds from the national budget. Subsidy funds from the budget or from foreign aid sources are to be kept separate from other revenues in order to impress upon the people that such assistance is extraordinary and cannot be taken as a matter of 'right'. It is hoped that this will spur them to increase local revenues to the point where no external support is required.

Relationships between the Bara Hakim and the Panchayats are not regarded as a problem. The Zonal Commissioners and District Development Officers are already established on a rudimentary basis to handle developmental activities. As the Bara Hakim system is 'phased out' over the next three to five years administrative powers will be gradually transferred to the Zonal and the Developmental Districts and the old system will be replaced by the new.

Although primary attention has been focused upon the village, it is intended that the election of District Panchayat will commence soon after the monsoon is over. When established, the District Panchayat will play an essential role in the self-help program as they will have the final authority to approve village level activities. The village is seen by His Majesty's Government as the most critical level. In the American idiom, the village is the 'payoff' - for it is within this basic political community that meaningful social progress, political stability and economic growth must begin.

Observations

The broad plan put forward by His Majesty's Government to establish local government and support self-help development seems eminently desirable and sound. It forms an essential part of any plan which aspires to bring meaningful change to Nepal during the next decade. It is not, however, a panacea, nor should it be regarded as a means of getting economic development 'on the cheap.' Without land reform, a change in the tax structure, basic public administration improvements, and a broad program of education, local government alone cannot achieve the goals set by the government.

This is, however, a critical field, fully deserving the high priority given it by the National Planning Council, since it is through local government that the mass of the people can be enabled to participate both in government and economic growth. Such economic growth is desirable and necessary, but in terms of national interest, an increase in the gross national product alone, if it concentrates additional wealth in the hands of the few who are already wealthy, can only lead to unrest and political instability. Likewise, education is essential, but education, without the institutional forms which permit participation and vertical mobility, can lead to pressures for change which will destroy the society. Within the next decade, if change is to come in an orderly fashion, it will be the leaders of today who will bring it. During this period, while education is taking hold, the future of rural Nepal will rest in the hands of the adults who have authority in the villages today. Development, through self-help and local government, is a means of giving them both the incentive to introduce change and the skills, guidance and resources to successfully bring it about.

My observations are, therefore, made with a positive bias, since I regard the potential benefits of the developmental aspects of the Panchayat system of local government to be of great importance. However as local government is concerned almost exclusively with the village and district tiers of the Panchayat system, I have not here considered the details of Zonal or National Panchayats.

Specifically, I would make the following observations:

A. That if the Panchayat system is to be successful it must be established, with the full support of the Council of Ministers, on a uniform national basis under the direct control of a single ministry or agency of His Majesty's Government. It cannot be administered in one manner in some areas and in a dramatically different manner in other areas. Nor can it be administered autonomously with little reference to the responsible agency of His Majesty's Government. Experience with the Village Development program has proven this.

B. That modest goals be established for the program. If each village panchayat carries out only one small scale development activity during the first year of the program, but carries it out under controlled conditions, this will be a major achievement.

C. That it should be recognised that local government, like all government, is founded upon authority and that authority and power throughout Nepal, insofar as the administration of civilian affairs is concerned, is vested in the Ministry of Home Affairs. Therefore any ministry dealing with the establishment of local government must have a special relationship with the Ministry of Home

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Affairs. Clear lines of authority and responsibility must be established if future conflict is to be avoided. Once local government is firmly 'institutionalized' it may be merged, for administrative purposes, into the Ministry of Home Affairs.

D. That a new Panchayat Ministry (or Ministry of Local Government) should be created to embrace the training and non-technical functions of the existing Ministries of National Guidance and Development. Since the traditional authority of the Panchayats was limited to the village and since its functions were rather more limited in nature than those envisaged for the new system of local administration, I urge that the broader term 'Local Government' be used in place of Panchayat when designating a national cabinet post.

E. That the Panchayat Ministry should have three departments to handle Panchayat Administration, Local Leadership Training and Self-Help Development. It would appear logical to assign the existing Department of Local Self-Government the responsibility for Panchayat Administration and to give the Department of Village and District Development responsibility for the Self-Help Development area. I also consider that the long range objectives of the national guidance program could be more effectively achieved if personnel attached to the two departments (of that ministry) which are concerned with the class organisations were assigned responsibility for conducting a broad national program for training local leaders in administrative and developmental skills.

F. That the Village Development program, in its present form, should be terminated at an early date. All technical personnel now assigned to Village Development should be transferred to the appropriate technical ministries. Technical aspects of the Village

Development program should be assigned to the proper ministries. If such programs are to continue, they must be supported, controlled, and supervised by the technical ministries, not by local government personnel.

G. That, notwithstanding the Minister's expressed hope that there will be but a single developmental program at the district and village levels, working arrangements should be formulated to insure coordination between local government authorities and the technical ministries. A regular coordination meeting of the Directors of all Departments of His Majesty's Government could serve this purpose if each Ministry would delegate the authority to its Department Directors to make binding decisions relating to operational matters. Agreements should also be established setting forth the kind and amount of administrative support to be given to the technical personnel of the ministries by local government authorities and the technical support to be given by field personnel to local government.

H. That the proposal to attach even one civil servant to each Gram Panchayat initially, should be carefully evaluated in light of overall objectives. If Panchayats are to create independent, self-reliant, and self-governing communities, then they should not be made dependent at any stage upon government appointed secretaries-cum-administrators. At this stage, single Village Development Worker should be retrained to serve as the Local Government Advisor to a number of Gram Panchayats. The Minister of Development considers that, as financial and human resources become available, personnel skilled in a number of useful rural and developmental skills might undertake a variety of tasks at the local level. Records, statistics, revenues, land registration and the village post office might be handled by a single person in the employ of the Gram Panchayat. He also believes that, in time, such persons could organize low level

technical programs in health and agriculture.

I. That the hope that local government can make the villagers totally self-supporting in time is not one which my experience leads me to believe is well founded. An increase in taxes is of limited value if the tax base remains fixed and the overall productivity of the community does not increase. In an agrarian society, productivity will increase only when the farmers are afforded some incentive to improve their crops. This brings us back to the land tenure system. Land reform is the sine qua non without which the basic structural changes in Nepali society, which are essential if progress is to be made, cannot be carried out. Until these changes are made, a self-sufficient village is likely to continue to be a sub-marginal village.

J. That the temptation to impose a uniform program from the top downward should be resisted at all costs. If attitude change is to come, local initiative must be given its head in the selection of self-help activities. This does not mean that there can be no demonstration or pilot areas, but it does mean that the national program must be based upon activities which satisfy needs which the village people identify for themselves. The voluntary cooperation of fifty men in a community project is more significant for Nepal than the forced participation of five hundred men in a government imposed program.

K. That the authority of the Gram Panchayats to handle judicial and legislative matters should be severely circumscribed if they are to have any chance of carrying out effective developmental programs during their early years. Likewise, their power to tax should initially be limited to kind and labor. Only when

they have had training in the techniques of administration and when proper procedures have been established should they be permitted to collect cash.

L. That the central importance of identifying and training voluntary local leaders must be recognised. A national training center for local government officials and selected voluntary lay leaders should be established at the site of the Rural Institute in the Rapti Valley. Training should be given in short courses during those periods of the year when the farmers are under-occupied, i.e. between crops. Not only should such training include simple panchayat law, government organization and village administration but also a wide range of useful rural skills such as rough planning and estimating, basic construction and carpentry methods, timber and stone work, the mixing of concrete, bridge, culvert and road construction, etc. Peace Corps volunteers might well be requested to serve as training staff in such a national local leadership institute.

M. That in selecting voluntary leaders for training, special emphasis should be placed upon obtaining ex-servicemen, especially those who have served in Gurkha battalions in India and abroad. Many such persons have acquired a wide range of developmental skills while in service. They also have an understanding of the possibilities of change, hence are potentially excellent 'change agents' for much of rural Nepal.

N. That when technical personnel now attached to the Village Development staff (JTAs, SEOs, DYPOs, Cooperative and School Inspectors, etc.) are transferred to the appropriate technical ministries, and the Village Development Workers are assigned as Local Government Advisors to the Gram Panchayats, provision should be made for attaching the Gram Sevikas and their Women's Training Institute to the Department of Local Leadership Training. The Institute might be used as permanent

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center for training voluntary women leaders to carry on the program of women's affairs which has been established by the Gram Sevikas over the past five years. The Gram Sevikas, after some additional training, should be transferred to the Field Training Section and assigned to select and train voluntary leaders at the village level. Peace Corps Volunteers might be used to staff the Women's Institute and to re-train the Gram Sevikas.

O. Recognizing that the formal power structure in the rural areas of Nepal is oriented around the Bata Hakim and, notwithstanding the plan to 'phase out' this office, that he is likely to continue to be the single most influential civilian official for some time to come, all local government programs and development activities should be planned with his participation and carried out with his support. The Bata Hakim should be named to head the District Development Committees even though they might be urged to delegate their authority to the District Development Officer. A fundamental rule in establishing local administration is to work with and through the existing, traditional, power structure at the outset, to the maximum extent compatible with your long range objectives.

P. That decision-making authority should be decentralized to the lowest local government body which has administrative competence. Authority to approve village activity proposals should be vested in a District Development Committee to be established in each of the seventy-five developmental districts. Although, as noted, the Bata Hakim should be appointed Chairman of those Committees within his administrative district, the District Development Officer should where possible, actually serve as presiding officer. Membership in this committee should include all senior representatives of the various ministries who are serving in the district. Senior police and military officials, as well as representatives

of Health, Education, Agriculture, and Public Works should be included.

In self-help activities the district representative of Public Works has a major responsibility for assisting Panchayat by drafting and approving workable plans for small-scale activities. District Panchayat representatives will also serve on the Committee.

Q. That every ministry having field staff and field programs should be required to delegate to their district representatives the authority to make binding decisions on behalf of the ministry in matters relating to the approval of small scale self-help type activities of a non-technical nature. In the construction of schools, dispensaries, etc., district representatives should only give approval if the proposed activity is consonant with the overall plans of the ministry concerned.

R. That as the District Panchayats are established, a development committee from the Panchayat should be included in the District Development Committee. At first their role should be to observe and learn procedures as non-voting members. Later, they should be given full membership. In time, it may prove desirable to increase the representation of the District Panchayat in the District Development Committee and, eventually, as local leaders show evidence of their administrative competence, the two bodies may be merged. At this point the ministerial representatives would, perhaps, become non-voting technical advisors to the semi-autonomous local government body.

S. Although the bulk of developmental funds ought, properly to come from district tax rebates and local revenues, it seems probable

that additional funds will be required from external sources. Where-
ever feasible, locally collected revenues should be used only for
developmental purposes and only in the areas where collected. These
funds should not be 'pooled', used to cover salary or administrative
costs of district personnel, or allocated to other districts. The
national budget should provide funds for the field staff and adminis-
trative organization of the Ministry of Local Government. If additional
developmental funds are obtained from the national budget or other
sources, they should be used, where possible, on a matching 'rupee
of rupee' basis, to augment local revenues. It is vitally important
to establish a direct casual relationship in the minds of the village
people between revenues raised and benefits received.

T. That special developmental funds to support self-help activities
should be tightly controlled by activity agreements between the District
Development Committee and the Gram Panchayats in order to insure that
the village people are fully aware of the nature and extent of the
help afforded them both by the District and from the special funds.

U. That in allocating subsidy funds for self-help, effort should
be made to insure that the remote and isolated district receive funds,
not on a per capita basis, but on a basis which will insure that,
regardless of the cost differential in procurement of commodities,
they will be able to carry on a program adequate to the needs of the
area. Because districts are remote a sparsely populated is no
reason to disregard them; indeed, it is good reason to pay special
attention to their needs.

V. In self-help development through local government, the need to base the activity program upon recognized needs which the community itself identifies, has been stressed. This is essential if the voluntary cooperation and active participation of the people is to be obtained. On the other hand, to insure that national resources are used rationally, there is an increasing tendency to place reliance upon long range developmental plans that are established by the National Planning Council from the top downwards. Central planning and local initiative are not, however, to be regarded as being either mutually exclusive or in conflict. In my view, self-help development must form a vital part of any central plan. The role of the central planning agency is to determine what portion of the national resources will be used to encourage local initiative and to establish the conditions under which financial support will be given to local government bodies. As activities undertaken by local government should be limited almost exclusively to non-technical areas, as conflict should arise between the goals of the central government ministries and the progress of the District Development Committees.

W. That District Development Committees should be guided in the consideration of village activity proposals, by criteria similar to these:

Approval and external support should not be given unless the activity:

1. benefits a wide segment of the population of the village.
2. has been assigned a high priority by the villagers themselves and will be cooperatively supported by them.
3. makes maximum use of local materials and voluntary labor
4. is sufficiently non-technical in nature so that it can be successfully completed by the people themselves.
5. is of such small scale that it can be successfully executed by the villagers themselves within ninety days.

As noted earlier, no activities which will require ongoing support from the national government should be approved without the prior agreement of that ministry through its designated representative.

X. That a major objective of the overall program during the first three years should be to train and upgrade the quality of local leadership to the point where the salaried staff of the Ministry of Local Government can be reduced to an absolute minimum. If local government is to be truly local, control of it must rest in the hands of the elected leaders at the village and district level, not in the hands of paid advisors on the civil service rolls. A determined effort should also be made to give in-service training to the existing staff of Village Development Workers cum Local Government Advisor, with a view to 'selecting out' approximately half of them and assisting them to find other employment. If at the end of three years, there were four well trained, effective, and highly motivated local Government Advisors serving under a qualified District Development Officer in each of the seventy-five districts, local government would have a much better long-range chance for success than if there were several thousand under-trained, un-motivated and under-occupied personnel in the field. It is also well to note that the lower the salary costs are reduced, the higher proportion of available revenues can be devoted to development.

Y. My final observation is that every effort should be made to insure that the program remains flexible and free from bureaucratic procedures which tend to defeat its basic purpose. Every possible advantage should be taken of local conditions, practices, and customs. Local initiative should be encouraged with a full knowledge that there will be errors

both in judgement and in practice. Error is inherent in human endeavor. Through trial and error we learn. Only by experiencing self-government can local leaders learn how to organize and control the resources of the community for the benefit of the people. On the one hand, too high a level of expectation should not be established concerning the administrative competence of the Gram Panchayats. Fundamental administrative responsibility for development work should be fixed at the district level for the present. On the other hand, it would be both unrealistic and unwise to form too low an opinion of the political skills possessed by village leaders. Because the Gram Panchayats are, initially, being elected by a 'show of hands' vote, it seems very likely that the elections will serve primarily to re-affirm the existing, traditional, power structure within the village. This, however, should not be regarded as being inherently a bad thing. After all, effective local administration must be based upon de facto power as well as de jure authority. Therefore, the support and participation of the recognised leadership in the village is essential. It must be remembered that these individuals have become and have remained leaders because they possess control over local resources, because they have magical or religious authority; because of kinship ties; or simply because, in many cases, they are shrewd, intelligent or energetic human beings skilled in dealing with people. Whatever the reasons, be they 'democratic' or 'authoritarian', they are, for the present, the acknowledged leaders. If local government is to evolve through using the strength of traditional society rather than by crushing it, their participation is required. This is where you must begin in Nepal

Mechanics

210

The actual procedures for giving operational substance to the developmental program to be undertaken by the Gram Panchayats will, of necessity, have to be worked out under field conditions over a period of months or even years. There are, however, certain guidelines which could correctly be established at the outset. Taking into account the objective established by His Majesty's Government and the logistical, communication, and transport difficulties encountered in Nepal, I would urge that control over, and support for the program be decentralized to the maximum extent compatible with competent administration and the achievement of its goals.

Based upon my observations, I would suggest that self-help development could be carried out through the Gram Panchayats along the following lines:

1. After assessing the needs of the village, the Gram Panchayat, with the advice of the assigned Local Government Advisor, should prepare a Village Activity Proposal for each activity which it would like to undertake, indicating the priority of each (see sample draft of form attached). This Proposal should indicate the nature, scale, purpose, location and estimated cost of the activity and should show the amount of time which will be required for completion. It must also show the nature and amount of the contributions to be made by the village and to be requested from the District Development Committee. Estimates should show the actual goods, materials, and services to be provided, not just the amount of money required. Local labor and materials must be costed out on the basis of prevailing local prices. Where local development projects require no ex-

ternal support, the Gram Panchayat should have authority to approve activities which meet the criteria outlined earlier without referring the proposal to the District Development Committee. In such cases they should, however, send copies of their proposal to the District for forwarding to the Ministry.

2. All Village Activity Proposals which request external assistance should be forwarded by the Local Government Advisor to the District Development Officer, together with plans, maps and estimates showing the details of each activity.

3. When proposals have been received from the Gram Panchayats of the District, the Development Officer should convene a meeting of the Development Committee to consider each proposal in the light both of the criteria set forth for approval and the resources available for support of development works. Generally speaking, it is preferable to approve a greater number of smaller activities than to concentrate available resources on a few large activities, since an objective of the program is to involve the maximum numbers of rural people in self-help throughout the widest possible area of the nation. Perhaps a 'ceiling' of Rs.1,000 or possibly, Rs.2,000 should be imposed upon support for any single activity.

4. When a number of suitable activities have been identified, the Committee should consolidate them into a District Development Project (see sample draft attached). This Project would constitute an agreement between the Committee and the individual Gram Panchayats concerned

120

to undertake specific activities along approved lines. Representatives of the technical ministries should insure that approved activities meet the basic standards of their ministry before being incorporated into the Project. It is suggested that each such Project should include all the activities to be undertaken within the district during a working period of approximately three months. Since this is about the time available between the planting and harvesting of crops, a single Project may well constitute the annual program for many districts.

5. A district Development Project may include any number of small-scale self-help activities, but the total value of the external support to be provided under one project should not exceed, say, Rs.20,000. Unless some such limit is imposed, projects will become too large and difficult to administer on a decentralized basis. Just as approval of activities requiring technical assistance can only be given if the technical skills are available in the district, so the allocation of funds and materials can only be made against credits and stocks actually available to the District Development Committee at the time of approval.

6. Funds available to the District Development Committee from local revenues and from the special developmental budget should not be commingled, but should be maintained in separate accounts opened in the name of the Committee at the nearest Treasury Office or banking institution. Approval for expenditure of funds from the developmental budget must only be given after the funds are actually available, since advance approval against funds not yet received leads to disillusionment, frustration, and resentment on the part of village leaders and people. It also makes a scapegoat of the national government

and defeats a major purpose of the program. If district officials are to be given authority, they must also assume responsibility.

7. In every case where it is economically feasible, support for village activities should be in kind, not in cash. The basic commodities required for simple public works type activities include cement, roofing, hand tools, nails, bolts and simple hardware fittings. The Department of Self-help Development should undertake central procurement of these items for allocation by the District Development Committees in support of approved project activities. When so allocated, the cost of commodities should show as a part of the District's contribution to the activity and should be charged on the accounts of the Department against the funds obligated for development in that district.

8. To sustain a national program of small scale activities on a long term basis with the minimum expenditure of funds, it is essential to establish secure storage space and adequate property management records before any procurement is undertaken. Zonal warehouses should be established at central locations for the stockpiling of basic construction commodities which could then be issued on demand of the District Development Officer for the support of approved activities. Well trained warehouse and property management personnel attached to the Department of Self-help Development should be charged with the responsibility for each such warehouse.

9. Project accounting and record keeping must be kept to a minimum and must be simple. The Village Activity Proposal form and the District Development Project (which incorporates all approved activities) should provide the basic information required to determine the nature of ex-

penditures made. On-site examination should show whether or not the activity was completed. The District Development Officer should submit a regular status report showing completed activities and giving estimated completion dates for those which are uncompleted. District approval for new activities in any single village should be withheld until all previously approved activities have been successfully executed. Likewise, no funds should be made available by the national government to the district for new projects until there is evidence of actual achievement under the projects already funded.

10. When all the activities approved under a given District Development Project have been completed (or terminated for special reasons). The District Development Officer should prepare, for approval by the Committee, a Completion of Project Report, indicating very simply what has been accomplished, the time elapsed, the funds expended, and any special circumstances which affected the execution of the approved activities.

This, in essence, is one approach to the problem of establishing procedures for the conduct of self-help development in Nepal along reasonably orderly lines. That it is only broad outline and that it can only be considered as a tentative approach to be modified to meet the unique conditions of Nepal, is, I believe, self evident.

In conclusion I would once again reaffirm by conviction that, at the local level, the Panchayat system has the potential to make a major contribution to the social and economic growth of Nepal at the place where this is vital, the village. At the same time, by broadening the basis for participation in the processes of government, it can create the con-

ditions fo political stability which are essential for national development. By creating the institutional foundation, the 'infrastructure', for a participant society in which the ninetyseven precent of the people who are now inarticulate are given the means of expressing their will, of engaging in meaningful developmental activities, and of taking part in making those decisions which most directly affect their own communities, the Village and District Panchayats can do much to alter the attitudes of the rural people toward both their government and their environment.

Clearly, it is of the greatest significance that His Majesty's Government has attached the high priority which it has to this program.

SAMPLE DRAFT
MINISTRY OF LOCAL GOVERNMENT
DEPARTMENT OF SELF-HELP
VILLAGE ACTIVITY PROPOSALS

224

VILLAGE: _____ TYPE OF PROJECT: _____
DISTRICT: _____ DECIPTION: _____
EST. TIME REQUIRED: _____
PRUPOSE OF PROJECT: _____

SOURCES OF LAND, LABOR, MATERIALS, TOOLS, EQUIPMENT, AND SPECIAL SKILLS:

CONTRIBUTION OF VILLAGE	REQUESTED FROM DISTRICT DEV. COMM.
1.	1.
2.	2.
3.	3.
4.	4.
5.	5.
6.	6.
TOTAL	TOTAL

OVERALL TOTAL: _____ PERCENTAGE OF TOTAL CONTRIBUTED BY VILLAGE: _____

TECHNICAL ASSISTANCE REQUIRED: _____

ESTIMATES PREPARED BY _____

DATE: _____ APPROVED: _____
Pradhan Panch

DATE: _____ FORWARDED: _____
Local Govt. Advisor

DATE: _____ RECEIVED: _____
District Development Officer

PROJECT NUMBER _____ OF _____ PRIORITY _____

NOTE: ATTACHED PLANS, MAPS, AND DETAILED ESTIMATES FROM A PART OF THIS
ACTIVITY PROPOSAL.

100

MINISTRY OF LOCAL GOVERNMENT
DEPARTMENT OF SELF-HELP

DISTRICT DEVELOPMENT PROJECT

DISTRICT: _____ DATE: _____

PROJECT NO: _____ EST. DATE OF COMPLETION: _____

The District Development Committee of _____ District hereby enters into agreement with the below listed Gram Panchayats for the purpose of executing the village self-help activities shown; as detailed in the attached Village Activity Proposals. Agreement is hereby given to provide materials and technical assistance from District and Special Development funds in conformity with the attached estimates. The appended Village Activity Proposals, together with individual plans, maps and estimates, form a part of this agreement. The Gram Panchayats of the respective villages will be responsible to insure that the contribution of the population is made in accordance with this agreement and for the purposes approved. The signature of the representative of the technical ministry concerned shall affirm the availability of technical services requested and the approval of the ministry for the project. Each Gram Panchayat shall be responsible for submitting, every ninety days until completion, a status of project report regarding each activity and a final notices of completion.

APPROVED DEVELOPMENT ACTIVITIES

No.	Village	Activity	Contribution of Village District	Total Cost	Completion Date	Remarks
1.						
2.						
3.						
4.						
5.						

Approved: _____
Dist. Education Inspector

_____ Dist. Agricultural Advisor

_____ Dist. Public Works Overseer

_____ Dist. Cooperative Inspector

_____ Dist. Health Inspector

_____ Dist. Dev. Officer Chairman

Approved this _____ day of _____, 1962

NOTE: Copies of this document will be forwarded to the Zonal Officer and to the Dept. of Self-Help Development, Ministry of Local Government. Copies of the attached Activity Proposals, as approved will be distributed to each village concerned.

THE COOPERATIVE AND AGRICULTURAL CREDIT PROGRAMS IN NEPAL
AND THEIR ROLE IN ECONOMIC DEVELOPMENT

By
Russell B. Gregg
Agricultural Credit and Cooperative Advisor

Purpose of Report

This report was prepared as a result of my temporary assignment in Nepal from March 30 to August 7, 1964 to advise HIG/Nepal through USAID/Nepal in the planning of a more effective program involving the use of Cooperatives and Agricultural Credit in the Development of Agriculture. The excellent cooperation and assistance which I received from all persons contacted during my assignment was gratifying.

Background

Nepal has had a cooperative program since 1956 when an executive order by HIG legalized the process of registration for cooperative societies. The Department of Cooperatives was established at the same time to provide assistance to the Cooperative Movement concerning registration, education, auditing, and management of the societies. Legal status was given to organized cooperative societies by the enactment of cooperative societies Act of 1959 and a year later in 1960 the rules under the Act were designed and promulgated.

USAID/Nepal first participated in the Cooperative Movement in 1960 when, at the request of HIG/N, approximately \$145,000 was obligated in the Village Development Project Agreement to support mostly the administrative Budget of the Department of Cooperatives. During FY 1961-62 the Indian Aid Mission was also supporting Cooperative Development through the Village Development Program. This assistance, however did not duplicate USAID/N assistance as each operated along geographical lines.

Outside of a comparatively small amount for the procurement of commodities USAID/N contribution to the Cooperative Program has been through the use of U.S. owned P.L. 480 Indian Rupees. Since 1959 USAID/N has provided the equivalent of Rs. 3,439,391.23 in Nepalese Currency to HIG/N towards supporting the Cooperative Movement.

Previous technical assistance by USAID/N has been limited to three short temporary duty periods of not over 90 days each of three Agricultural Cooperative Credit Advisors. Mr. G. Leonard Dalsted completed his assignment in June 1963, Mr. Roscoe Roberts assignment was cut short by his untimely death in October 1964, and Mr. Ralph B. Johnson completed his assignment in March of 1964. All three left evidences of their valuable assistance to HIG/N concerning policy matters and methods of organization for a national agricultural credit program. It is unfortunate, however, that much needed continual assistance of such advisors was not provided.

During 1963 a "Cooperative Development Loan Fund" was established within the Department of Cooperatives operating on a revolving basis. All previous loans made to societies, when repaid, would be deposited to this fund as would all future allocations of money intended for loaning purposes. This fund will be transferred to the recently organized Cooperative Bank which is now responsible and has jurisdiction over all government sponsored cooperative financing.

The progressive growth in numbers of cooperative societies by years is shown as follows:

<u>Years</u>	<u>No. organized</u>	<u>Years</u>	<u>No. organized</u>
1957	17	1961	208
1958	36	1962	203
1959	2	1963	289
1960	115	1964	190

As of May 1964 there were 1960 legally registered cooperative societies in existence consisting of the following types:

Multipurpose	745
Credit	221
Cooperative Unions	12
Consumer	24
Cottage Industries	35
Milk producers	5
Other	18

At present it is estimated that a majority of the multipurpose cooperatives function mainly as credit cooperatives which are usually of the small village Production Credit Type. They do not have the provision for accepting saving deposits from the members. The recognition in FY 1961 that the Cooperative Societies would be organized faster than trained personnel and loan capital could be provided resulted in a policy of establishing designated areas where cooperative activities would continue to be intensive and other areas where the activities would be less intensive or arrested altogether. This type of geographical emphasis was intended to prevent further "scatteration" of society formation and consolidate available resources for more effective use.

FY 1964 marked the implementation of the "Land Reorganization Act" enacted into law in 1963 and was designed to give an organized approach to area development on a Gram Panchayat basis. Budhabare Gram Panchayat in the Jhapa District was the first area selected for testing the new approach and to determine weaknesses in its administration with the view of making necessary correction when subsequent gram panchayats were implemented.

A Land Reorganization Department was established in the Ministry of Agriculture, Forest and Land Reforms to plan and coordinate the activities connected with the implementation of the Land Reorganization Act.

The steps planned in initiating the Land Reorganization Program in each Gram Panchayat are as follows:

Step 1. Performing a cadastral survey including the identification of tenants and landlords; compiling data concerning history of tenants as well as pertinent economic information.

Step 2. Issuance of permanent Tenure Certificates and establishment of special courts to arbitrate concerning boundary, title and other disputes.

Step 3. Organization of a multipurpose cooperative society mostly for the purpose of administering a supervised credit program to members on the basis of a farm plan.

Step 4. Making loan funds available to the Cooperative Society by the Cooperative Bank for the purpose of relending to its members to finance family living and farm operating expenses.

The Cooperative Bank Act of the Nepal was passed and became effective during the last half of 1963. The first board of Directors meeting was held in September 1963 composed of the Secretary of the Ministry of Panchayat, Director of Department of Land Revenue, Director of Agriculture, Registrar of Cooperatives, Director of Agricultural Reorganization Department, Representative from the Nepal Rastra Bank, Advisor from the Ford Foundation Office and the General Manager of the Cooperative Bank.



The objectives of the Cooperative Bank are contained in the preamble of the Bank Act as follows: "to finance the reorganization of agriculture and to provide credit facilities to the various small scale production, marketing and other societies organized on Cooperative Principles."

The following is a summary of the present capitalization of the Cooperative Bank.

1. Total Capital made available to the Bank

N/C Rs. 1,200,000	HMG/N contribution
1,600,000	USAID/N contribution
<u>44,000</u>	Shares purchased by 548 societies
2,844,000	

2. Disposition of available capital

(a) Rice and paddy purchase and consumer stores	N/C Rs. 1,450,000
(b) Godown construction	100,000
(c) Nawalpur Resettlement Scheme	100,000
(d) HMG/N Development Loan certificate	10,000
(e) Loans to Societies for purchase of seed	15,000
(f) Obligated as additional loan to Nawalpur Resettlement Scheme	300,000
(g) Loan to a Cooperative for procurement of sugar for resale	<u>60,000</u>
	2,035,000

The approximate uninvested capital in the Bank at present is

N/C Rs. 809,000. The Cooperative Development Loan Fund, as previously mentioned and administered by the Cooperative Department, now consists of

N/C Rs. 35,19,451.50. This amount was divided up among several District Panchayat Development Officers who, in turn, portioned it out to the Co-operative Societies within their respective districts. There has been no central accounting of these funds and the district offices have been collecting and reloaning the money until now it is difficult to obtain specific information as to the status of this fund. The Cooperative Department has dispatched questionnaires to the district Panchayat Development offices in an attempt to obtain a central accounting and the subsequent collection of the fund. The amounts collected are to be deposited to the account of the Cooperative Bank to be further used as loan funds and administered according to the policy and rules of the Bank.

The Department of Cooperatives has been conducting a training program for its personnel through a Cooperative Training Institute now located in Kathmandu. The training course is given to an average of 30 students each six months and upon completion of the course are employed as cooperative sub-Inspectors and are assigned to a rural area under the supervision of a Cooperative Inspector.

The general headings of subjects taught are theory and history of Cooperation, Cooperative law, Banking, Book keeping and accounting and cooperative audit, and Rural Economics.

The Institute is at present located in the same building with the Panchayat Development Department under cramped conditions.

PROGRAM ANALYSES AND SUMMARYCooperatives

Those persons involved in the early organization of the Cooperative Movement in Nepal are to be congratulated for a difficult task accomplished.

To get a nation-wide Cooperative Program functioning under conditions of low levels of education, poor communications and a feudalistic system of agricultural organization, could be demoralizing to all but the most conscientious and devoted advocates of the cooperative method of development.

When a close look at the present cooperative program is made it becomes apparent that, due to changing needs and circumstances, some of the methods and policies employed during the early stages of organization do not have the same merit now. Some of the methods and policies, which have been employed and which if continued, will present increasing difficulties in obtaining the real basic objectives of the development programs are described as follows:

1. Over expansion

The rate of organizing new cooperative societies over the past 3 years has been faster than the necessary follow-up supervision and assistance by trained personnel could be provided. At present with 1060 registered cooperative societies there are only 75 sub-Inspectors. Under these circumstances each sub-inspector, on the average, will be responsible for the supervision of 14 cooperative societies, also many of these sub-inspectors have been hurriedly trained which reduces the number of cooperatives which

they can effectively assist. Since the cooperative movement now has fairly wide coverage it would seem appropriate, at this time, to deemphasize expansion and emphasize additional training and assistance to existing cooperative societies.

2. Establishment of a cooperative federation

The Department of Cooperatives should be acting mostly in an advisory capacity to the Cooperative Movement. In order to do this it should have a National Cooperative Federation to work through.

By not having such a federation to work through the Cooperative Department finds itself doing the work for the cooperatives instead of advising them and training them to eventually handle their own national administrative duties.

A cooperative federation would be responsible, among other duties, for maintaining a central system of statistics concerning the activities of and assistance to all cooperative societies. For an example, the cooperative Development Loan Fund consisting of Rs. 35,19,451.50, which the Department of Cooperatives has been administering without a central system of accounting, should have been administered by a Cooperative Federation under the advice and guidance of the Cooperative Department and which would have provided a central accounting system.

3. Purposes for which cooperative societies are organized.

Out of 1060 cooperative societies now organized 221 are strictly of the credit type and a majority of the 745 multipurpose ones operate primarily as credit cooperatives. There are no provisions

at present whereby these credit societies can receive saving deposits from members. As an area begins to increase its production it can be envisioned that it will be transformed from an area needing loans to one that will have available savings which can be invested in other locations. A thrift and credit society is the simplest method of providing the facilities to its members for the purpose of saving accumulated income.

There are indications that many of the societies were organized for the principal purpose of obtaining a loan from the Cooperative Development Fund without taking into careful consideration how they would use the loan funds productively. Often members of a community shortsightedly harbor the idea that the saving of interest is their basic problem and need when in fact their problem in most cases is low production or lack of marketing facilities.

In order for the Land Reorganization Program to be successful in increasing production in active areas the purposes for organizing the respective cooperatives must be based upon the usual needs of increasing production per unit area. Along with increased production comes the generation of local capital so badly needed for continued development.

4. Training

The Cooperative Training Institute, considering available facilities and condition under which it has to operate, has been doing a respectable job of providing cooperative education and training. There is no library as such and too few text books

available which have to be passed around for the students to read. There is also a definite need for the institute to have a location of its own whereby there would be adequate facilities for classrooms, library and living quarters. Under the present conditions each student must find his own living quarters which results in their being scattered all over the city. This condition contributes to high living costs and is not conducive to good study habits. There is a possibility that the institute could be combined with the Panchayat training Center at Rampur whereby instructors could be shared and a much more practical course given. Training in the future is going to be of primary importance and there will be a need to provide training for the staff of the Cooperative Bank as well as officers of local cooperative societies.

A library of modern practical books and other printed material pertaining to subjects being taught must be established if the instruction is to be effective.

Cooperative Bank

The Bank having been in actual operation for little less than a year has been mostly engrossed in organizational details and has not, as of now, established a definite policy concerning its future loaning operations. Its rules and regulations have been drafted but have not as yet cleared the legal department in order that they can be accepted and approved.

Demands on the Bank to release funds for a variety of purposes are increasing which necessitates the formulation of some specific policies in order that a consistent loaning program can be maintained. Some basic principles on which loan policy determination should be based are listed as follows:

1. The bank must maintain control of its loan funds all the way to the recipient and back through the collection procedure.
2. The Bank must not consider it has an obligation to make loans available for any purpose until those requesting loans have thoroughly justified such requests with feasible plans and analyses consistent with sound development objectives.
3. The procedures for supervision must be clearly established for loans to individual farmers for production purposes. Such loans should be based on a sound farm plan prepared or approved by a representative of the Bank.
4. Eligibility requirements for loans must be the same for all similar applicants and should be printed and made available to all Cooperative societies.
5. The character of the National Agricultural Development Program and the availability of loan capital should be the basis for limiting the purposes for which loan funds can be borrowed.
6. Interest rates for each type of loan administered should be based on the estimated percentage of losses expected, costs of administering the loan and the rate of interest which the Bank pays for the capital it loans.

7. The Bank should require loan applicants to pledge all reasonable available holdings as security for the loan up to the value of the approved loan.

Land Reorganization

The order of events in initiating the Land Reorganization Program in each Gram Panchayat as mentioned previously has not proved out to be as effective as originally hoped. In order to provide more continuity of effort and to better identify the basic needs of the area in question, so that the right kind and intensify of assistance can be provided, the following changes are recommended:

- Step 1. Performing a cadastral survey including the identification of tenants and landlords, compiling data concerning the farming history of tenants as well as pertinent economic information.
- Step 2. Establishment of special courts to arbitrate concerning boundary, title, and other disputes.
- Step 3. An economic and agricultural analysis of the area be conducted by a competent team made up of at least one agricultural economist, one agronomy specialist, one soil specialist, and one extension specialist. The purpose of this analysis would be to identify the basic problems and needs of the area and make estimations concerning the production potentials and formulate proposals as to how these potentials can be feasibly attained.
- Step 4. Issuance of permanent tenure certificates.

Step 5. Hold general meetings with residents of the area to inform them of the findings and recommendations of the team who made the economic and agricultural analyses. Assistance will be provided at this time to the residents in organizing into a cooperative for the purpose of using self help measures to obtain increased production of the area and other basic needs based upon the recommendation of the team.

Step 6. Making loan services available to the cooperative society by the Cooperative Bank if such requests are for specific sound development purposes consistent with the analyses report on the area.

CONCLUSION

Probably the greatest weakness in the system of Agriculture organization and development in Nepal is the lack of coordination between the various departments and organizations involved in the development program.

In the implementation of future agricultural development projects it would seem necessary to establish a coordination committee at the National level. This committee should be small and composed of competent persons with adequate authority to guide the implementation of the project.

A detailed plan of operation for each project area should be developed clearly explaining the step by step approach and how each department will participate. This would especially include Panchayat members as well as representatives from the Department of Agriculture, Department of Land Re-organization, Department of Cooperatives and the Cooperative Bank.

It is a well known fact that a feudalistic system of agriculture organization, still found in many areas of Nepal, depends for its existence upon keeping the mass of peasant farmers uneducated and continuously in debt.

At the same time one of sticky problems confronting Nepal is how to generate local capital with which to finance a continued development program.

Economic data supports the reality that Nepal has two important available resources. One is a large labor force and the other is a good agricultural production potential. It then only seems logical that the principal means of local capital generation and the curtailment of feudalistic practices, would be to employ this labor force, supported by appropriate Land Reorganization activities, effective extension assistance, cooperative organization and guided credit, to specifically increase the usually low agricultural production per unit area.

Because easy loans have such a great appeal to the usually large lower income category of a rural population a credit organization such as the Cooperative Bank ^{sk} must constantly be on guard against possible political influence designed to create conditions whereby the Bank will be pressured into advancing loans for purposes which are not productive or are not specifically in line with sound program objectives.

There is need for the steady assistance of agriculture cooperative and credit advisors to work with the Cooperative Bank and the Department of Cooperatives as they formulate policy and operating procedures for their part in Agricultural Development.

The approach to agricultural development through the use of cooperatives and guided credit, which HMG/N is adopting, will pay big dividends in the future increased rate of development. Such an approach implemented with a certain amount of caution and based on sound principles, some of which are mentioned in this report, is worthy of continued USAID/N support both technical and financial.

101

SUPERVISED AGRICULTURAL CREDIT AND ITS RELATION

TO

LAND REFORM IN NEPAL.

An End-of-Tour Report

by

Ralph B. Johnson
Agricultural Credit & Cooperative Advisor

INTRODUCTION

The writer served for approximately 90 days in Nepal on detail from the Farmers Home Administration, U.S. Department of Agriculture. My assignment was to fill the gap left by the sad death of Mr. Roscoe Roberts, the former Agricultural Credit and Cooperatives Advisor, USAID/Nepal.

Mr. Roberts had been involved in the planning stages of implementing HMG/N's Agricultural Reorganization Act of 1963, commonly referred to as the land reform measure. This implementation, in one of Nepal's 75 development districts, was just underway upon my arrival on post. All of the problems, details, personnel training and other factors inherent upon such an undertaking were at a critical point and further absence of active USAID participation could have proved harmful to USAID's position in this activity.

About 1/3 of my time was spent in the pilot district of Jhapa and the rest in Kathmandu attending discussions, designing necessary forms and outlining procedure.

Appreciation is extended to Dr. Quentin Lindsey, Economic Advisor to HMG/N from the Ford Foundation, for his assistance in orienting me to the situation and problems at hand. The report written by Mr. G. Leonard Dalsted in June 1963 after his 8 weeks TDY assignment to USAID/Nepal has been very helpful and many of his suggestions have been followed.

BACKGROUND INFORMATION

USAID/Nepal has conducted an agricultural credit and cooperative project since 1956. Total USAID/N contributions to the newly created Cooperative Bank and to the Cooperative Department for Fiscal Year 1964 is \$230,578. The largest portion of this is in the form of agricultural credit loan capital.

The cooperative movement in Nepal really got underway in 1956. Perhaps it grew too fast, but today there are over 1,000 registered societies, the bulk of which are multi-purpose cooperatives whose main purpose is the extension of credit to its tiller members. Unfortunately only a small percentage of these are operating on a sound basis and exemplifying the true principles of democratic cooperation. If there is a dominant reason for this situation it is probably the lack of an adequate educational program, both for field personnel and the cooperators themselves.

Land reform measures have been initiated by HMG/N under the Agricultural Reorganization Act of 1963, and this has meant the role of credit cooperatives will be of prime importance in the country's rural development. The following are the main points of the Act:

1. A landowner may retain a maximum of 25 bighas (40 acres) in his own name. Land in excess of this will be sold to those who till it; the price will be 25% of the annual gross income times 10. Buyer will pay 10% in cash and balance over 10 years. In practice, there will be little land in the "excess" category as the owners, prior to enactment of the Act, transferred their excess acreage to other family members.
2. Rents from tillers are fixed at 50% of the crop after tiller has taken his seed for the next year. In the event lower rents are common in the area the lower rate will be in effect.
3. If a tiller has tilled a plot for at least a year, and he has been positively identified as the tiller in fact, he will be eligible for a certificate of tenure which will give him the right to till that plot as long as he doesn't violate the terms of the Act.

Formerly, tillers received their credit from the owners, often at usurious rates of interest. Under land reform the owner will tend to abandon his tillers to their fate, in the hope that the movement will fail. This is where the cooperative credit societies come in. HMG/N, through its Cooperative Department, intend to organize societies to provide credit and thus replace traditional sources. One gram panchayat (village political unit), Budhabare, has been selected in Jhapa District as the pilot area for land reform implementation. It was in Budhabare that my main efforts were spent during my TDY assignment, specifically in helping to set up a workable cooperative society for about 2,000 members.

THE PILOT PROJECT APPROACH TO LAND REFORM

The implementation of land reform in Nepal consists of the following parts:

- I. Cadastral survey to measure the plots and set boundaries for each of the 9 wards (sub-divisions) that make up a gram panchayat, i.e. a village level political unit;
- II. Identification of the owner of each plot;
- III. Identification of the tiller of each plot and ascertain that he has tilled it for at least a year, thereby making him eligible for a certificate of tenure;
- IV. Compile cross reference records on each plot, owner and tiller regarding family data, cropping plans, income, expenses, livestock data, tax data and tenure history;

V. Issue certificate of tenure;

VI. Organize a multipurpose cooperative society for the purposes of credit, loans in kind, marketing facilities, consumer services, storage and savings.

As the reader can see, the task is formidable and the details multifarious. Before a workable method can be employed countrywide a sound, well organized, routine system must be worked out satisfactorily on a pilot basis. The emphasis on the pilot district is not so much a desire to "make it work" but to establish a system that will work and can be duplicated in other districts. An attempt has been made to avoid "corner cutting" though the tendency to do so is great. If a satisfactory system on a practical basis cannot be designed, this too is important to know in the early stages. Twice before Nepal has attempted land reform and little or no success was noted.

THE PROBLEMS ENCOUNTERED IN JHAPA DISTRICT

1. Location - Jhapa is in the extreme south-east corner of Nepal. In the dry season one can reach there by flying scheduled airlines to Biratnagar and then he has a choice of (1) crossing the Indian border and travelling by train from Jogbani to Galgalia, an overnight trip of 16 hours; in Galgalia he must cross the Mechi river (no bridge, and crossing at this point is prohibited for foreigners) back into Nepal and Jhapa district, or (2) drive by jeep 6-8 hours over bullock cart trails to Budhabare. During the monsoon, method (2) is impossible and method (1) is hazardous as the Mechi river can be crossed only on elephant. A new air strip has been completed at Chandragarhi, district headquarters, but regular flights have not commenced. This is only a "fair weather" airstrip.

2. Personnel - The concepts of agricultural credit (especially supervised credit), marketing, farm planning, etc. are new to most HMG/N field workers. Training is a must and a never ending process. In addition, the supply of personnel that are "trainable" is definitely limited.
3. The People - The tillers and owner/tillers are nearly the forgotten elements of this program. They have little idea of what's going on, other than the government is up to something. This lack of involvement can be disastrous in a cooperative. Unless the members feel that it is their society and develop a sense of loyalty to it success will be inhibited. The history of repayment of government loans is not good. At this juncture there is not the feeling among the members that loans are coming from their own cooperative and from loan capital that is partially theirs in the form of share capital and savings. This apathy can be overcome only by numerous educational meetings conducted by enthusiastic and knowledgeable field workers in cooperation.
4. Communication - Chandragarhi has a wireless station but it is not in direct contact with Kathmandu, but rather with Biratnagar. Decisions that must be made in Kathmandu in the various ministries are slow in coming due to inadequate communication. Often the decision is so late that the need for it has long passed. Supplies from Kathmandu must go through India. The implementation team has one jeep in poor condition so the workers must walk daily to the various wards with distances up to 7 miles.

7486

5. Opposition - Although there is nothing in the open, there is a feeling of opposition from the landowners. They want land reform to fail completely - and soon. This opposition has been felt in the following ways:

- A. Cooperative attempts to construct godowns have been hampered by delays due to "shortage" of lumber and sawyers.
- B. Owners have prematurely sent their tillers to the co-ops office for loans, knowing coop was not yet in a position to extend them.
- C. Owners, in many cases, have taken entire current crop in order to "settle up" old accounts with their tillers. This has meant tiller will need essential subsistence credit immediately and in large amounts.
- D. Owners have prematurely declared land reform a failure in an attempt to win their tillers back to them.

THE COOPERATIVE BANK

The Nepal Cooperative Bank Act was passed in August, 1963, and this established an institution for channeling loan capital to the various cooperative societies requiring it. The manager of the Bank as well as the Registrar of Cooperatives, served as my HMG counterparts. The capitalization of the Bank is as follows:

Contribution from HMG/N's Nepal Rastra Bank	Rs.	8,00,000 NC
Funds formerly administered by the Department of Cooperatives		35,19,451
USAID/N FY 64 contribution		25,00,000
USAID/N FY 64 contribution for godown construction		<u>2,00,000</u>
Total	Rs.	70,19,451 NC
(Rs. 7.60 NC = \$1.00	Or \$	923,612

The Rs. 35,19,451 NC is distributed to various cooperatives so is not available for loans in the three Districts in which land reform measures are to be initially undertaken. The Department of Cooperatives has been requested to make a full accounting of the above funds in order that loan assets can be transferred to the Cooperative Bank. At this writing Rs. 16,00,000 NC has been advanced by USAID/N for FY 1964 and Rs. 11,00,000 is available, though presently unobligated, for use later in the year.

It is estimated that Rs. 22,00,000 NC (\$300,000) loan capital will be required for Budhabare gram panchayat cooperative society. This is one of Nepal's 3533 gram panchayats! Even though Budhabare is somewhat larger than most other gram panchayats it is still obvious that a tremendous amount of loan capital will be required (see Recommendations).

Emphasis has been on Jiapa district and it was felt that other cooperatives in Nepal had been neglected with regard to loan capital for their support. Many are newly registered and without initial financing they cannot function. To simultaneously provide initial loan capital for newly established cooperatives on a country wide basis, and meet the estimated loan requirements in Budhabare is a problem yet to be resolved.

Obviously, HMG/N is not in a position to provide the magnitude of credit required and if land reform is to succeed there must be a practical and workable plan developed whereby existing local credit sources can be tapped and loan capital funds from the Cooperative Bank will be secondary rather than the primary source of credit. Unfortunately, such a plan has not been finalized and those concerned are now looking to the Cooperative Bank to provide the funds necessary to satisfy the whole of the estimated loan requirements in Budhabare. The implications as to an established precedent and fiscal over involvement in a single gram panchayat are clearly unrealistic and undesirable.

ACCOMPLISHMENTS

Regarding the implementation of land reform in Jhapa district the notable accomplishments to date are as follows:

1. For the first time in Nepal tillers and owners of each and every plot in a gram panchayat have been identified with consistent accuracy. This is essential for equitable land taxation and registration and for assigning tiller rights.
2. An accurate cadastral survey has been completed in Budhabare gram panchayat which has set the boundaries of each of the 9 wards and the gram panchayat itself, hitherto unknown for sure.
3. A workable cross reference record system has been established which relates the owner, the tiller and the plot.
4. A system of surveying, coupled with interviewing the owner and/or tiller on the spot to obtain cropping data, income and expenses, has been perfected.
5. A cooperative society has been organized to provide credit, savings, marketing and storage facilities.
6. 50,000 maunds (2050 tons) of paddy have been purchased (or contracted) by the society at a reasonable price to fill go-downs (warehouses) owned or operated by the society. This is an important step because without paddy on hand to provide loans in kind for seed and subsistence needs at the right time the whole program would fail.
7. Supervised agricultural credit has been introduced in Nepal. This is credit based upon a farm and home plan and coupled with technical advice.

8. An organization chart and job descriptions were devised for those working on the implementation team. These set out the relationships among the cooperative inspector, sub-inspectors, zone officer, cooperative manager and assistant managers, go-down keepers, section officers and team captain. Heretofore considerable confusion ensued.
9. The writer adapted the following forms for use in the pilot district and they have been reproduced in Nepali in sufficient numbers and are now in actual use:
 - (A) Application for Membership in the Cooperative Society
 - (B) Farm & Home Plan (which includes loan application)
 - (C) Promissory Note
 - (D) Supply Voucher
 - (E) Receipt for loan repayments
 - (F) Loan Record Card.

In connection with the above I prepared a simple Forms Manual for use by field and office personnel as a guide to the use of the forms. This has been printed in booklet form in Nepali.

(See Forms)

10. Through supervised credit certain improved farm practices are being recommended to the tiller. For example, in some cases the crop income was found to be insufficient to make the farm plan work. The supervisor would then recommend, where applicable, that the tiller double crop and plant wheat after his paddy. It is then the cooperatives' duty to see that wheat seed is available and it can be distributed as a loan-in-kind. Formerly the tiller had little interest in increasing farm income because the major benefits of his efforts accrued to the land owner.
11. A number of HMG/N personnel are receiving on-the-job training in the various phases of land reform. The writer personally trained twenty-two field workers in the techniques of interviewing tillers and preparing their farm plans. These men will be the supervisors for the cooperative loans. The field of farm planning was completely new to them and some concepts were accepted slowly. Few of the trainees had any experience in agriculture. Nonetheless, they took to the task with enthusiasm and formulated a work plan for interviewing an estimated 2000 tillers in a 3 week period.

RECOMMENDATIONS

Based upon my brief experience in Nepal with the land reform team in Jhapa district the following are my recommendations and observations regarding rural development apropos land reform and cooperative growth.

1. USAID/Nepal has been involved in the formulative stages of land reform and it would be unfortunate if USAID did not follow up with continuing

advisors and financial assistance - at least until the pattern of land reform is well established and moving ahead in other than the pilot districts. In this regard I visualize the need for two USAID advisors: (1) one in the field of cooperatives with a working knowledge of supervised credit, and (2) the other to serve as advisor to the newly formed Cooperative Bank, with broad knowledge of institutional banking and cooperative credit.

2. An adequate supply of loan capital is essential to the success of a nation-wide credit program. HMG/N must take definite action - and soon - in this regard. Loan capital is available in the villages as land owners have, in effect, been supplying it for years. The problem is how to channel it through the Cooperative Bank. At the present a small effort is being made. Tillers are depositing with their cooperative society paddy at the rate of 20 seers (41 lbs.) per bigha (1 2/3 acres). This deposit is held by the society as savings for the tiller, but cannot be withdrawn for 3 years. In addition, a much broader scheme is needed and the following has been much discussed but no action taken:

Owners should be required by legislative action to deposit with the bank paddy (or cash) equivalent to 25% of the gross income from their land holdings rented to tillers. In return, the owner will receive Class B (non-voting) share capital at a set rate of interest. The owner is free to sell his stock if he chooses. In most areas tillers pay rent to the land owner at the rate of 50% of the crop, with the tiller bearing all expenses and labor. This is simply too much!

2424

The owners should have little objection to depositing half of their share in view of the fact they will be relieved of a large portion of record keeping and supervision under land reform. It is conceivable that in the case of absentee landlords they may receive greater income under this proposal. In any case, definite action is required to develop a scheme of loan capital generation as it is obvious that no aid program can provide it on a continuing basis.

3. No credit should be extended to tillers without supervision. Tillers are deeply habituated to the presence of intensive supervision from their land owners or his representatives. To discontinue supervision at this juncture would be disastrous. In time it can diminish as the tiller's outlook becomes more motivated. The cooperative must post supervisors in each ward with the responsibility of a certain "caseload". The society must charge enough interest to pay for this supervision - at least 10%. Ideally, the supervisors should be trained in agriculture.
4. The cooperative movement could benefit by inviting the active participation of agricultural extension. One compliments the other. Co-ops need this service because few of their workers are trained in agriculture and they need guidance in making recommendations for improved farm practices. From the extension side, cooperatives provide a ready made unit for implementing an extension program. Information can readily be dispersed and meetings easily called through their administrative set-up. More important, cooperators have credit available to carry out extension recommendations.

APPLICATION FOR MEMBERSHIP

TO: The Management Committee of _____
Cooperative Society, Ltd., at _____

I, the undersigned, hereby apply for membership in the above cooperative society and am interested in the following services: YES NO (Check one)

- 1. Credit
- 2. Savings
- 3. Marketing
- 4. Consumer services
- 5.
- 6.

I further certify that I am an owner/tiller/tenant (cross out word(s) not applicable) and agree to abide by the society's by-laws and decisions of the Management Committee.

Date _____ X _____
Signature or thumbprint

Witness if thumbprint is used

This application is recommended by the following two members who have signed below:

X _____

X _____

Above application for membership has been approved this date.

Date _____ X _____
Authorized signature for the Management Committee

COMMENTS

This form is used when a new member applies for membership in a cooperative. Additional details are not necessary as they appear in the Farm and Home Plan which, in most cases, will be completed at the same time.

PROMISSORY NOTE

Membership No. _____

Date _____

For value received the undersigned (hereafter known as the Borrower) jointly and severally promise to pay to the order of _____ and/or the Cooperative Bank of Nepal, hereafter known as the Lender, at its office in _____ the principal sum of Rs. _____ NC (Rs. _____ / _____ NC) in the following installments of principal, on or before the following dates, plus interest on the unpaid balances at the rate of _____ per cent (_____ %) per annum until paid.

Rs. _____ NC on _____, 19__ ; Rs. _____ NC on _____, 19__ ;
 Rs. _____ NC on _____, 19__ ; Rs. _____ NC on _____, 19__ ;
 Rs. _____ NC on _____, 19__ ; Rs. _____ NC on _____, 19__ ;

Accrued interest shall be due and payable on the same dates as principal installments. Prepayments may be made in any amount and at any time at the option of the Borrower. Borrower further agrees that:

1. He will repay the loan as income becomes available even though loan is not yet due;
2. while indebted to the Lender he will not borrow for any purpose from any other source without prior consent of the Lender;
3. he will not sell any of his possessions while indebted on the Promissory Note without prior consent of the Lender;
4. he will immediately notify the Lender of any conditions that might affect his ability to repay;
5. he recognizes the Lender's right, in case of his failure to repay, to collect the loan in any way Lender deems necessary including the right to seizure of his property;
6. any amount advanced by the Lender or expended by him under any security instrument in connection with this loan shall be added to the loan and bear interest at the same rate;
7. the loan funds will be used only for the purposes authorized by the Lender and will live up to the terms of any other documents prepared in connection with this loan;
8. this instrument shall be subject to the present regulations and legislation of His Majesty's Government, and to its future regulations not inconsistent with the express provisions hereof.

X _____
 Witness if print is used

X _____
 District _____
 Gram Panchayat _____
 Ward No. _____

SUPPLY VOUCHER

157

SUPPLY VOUCHER		No. _____	
Date: _____		Member No. _____	
To: The Manager of _____			
at _____			
Please issue the following specified amounts of supplies (or cash) as indicated to:			

whose membership number appears above. He has			
Rs. _____ NC in his loan account for			
these purposes.			
X _____			
Co-op Inspector			
ITEM	QUAN.	RATE	VALUE
T O T A L - - - - -			
Signature and/or stamp of authorized person filling order _____			
- - - - -			
I have received the above quantities of supplies and/or cash.			
Date _____		X _____	
Witness if thumb print is used:			
X _____			

COMMENTS - This form is printed in pad form measuring 4"x 7". It is prepared in triplicate and each set carries the same serial number. Each sheet of the set is a different color for ease in distributing the copies. The first and second copy are given to the borrower, the third remains in the issuer's pad. Both copies are surrendered by the borrower to the co-op store or warehouse where the manager there completes them. The original is returned to the borrower after he has signed the second copy which is retained by the store.

RECEIPT FOR PAYMENT

Name _____ No. _____

Dist. _____ Gram Panchayat _____

Ward No. _____ Member No. _____

Received this date from above member as payment on his loan(s) the amount of Rs. _____ NC applied to principal and interest as follows:

Office use	Principal	Interest	Total

X _____
Signature of authorized receiving official

Date _____

Stamp of cooperative

COMMENTS: The receipt is printed in pad form measuring 4"x 5". It is prepared in triplicate with each set of three bearing the same serial number. Each sheet in a set is a different color for easier distribution. Original goes to the borrower, second copy accompanies the money when it is transmitted to the branch bank and third copy remains in the pad as the issuing offices' record.

LOAN RECORD CARD

Membership No. _____		Name _____					
Type of tenancy _____				District _____			
Gram Panchayat _____				Ward Number _____			
Date	Advance	Amount of payment	Receipt No.	Application of payment as to		Principal Balance	Repayment Schedule
				Principal	Interest		

COMMENTS: Individual loan record cards are 5"x 7" and are printed both sides on stiff white paper. They are kept in special metal boxes with a dust proof lid. One card is kept for each outstanding loan. One promissory note is signed for the years' needs but the borrower will receive it in a number of advances. Interest accrues only from the date of the advance so each advance is recorded and dated and a new principal balance noted.

FARM & HOME PLAN

Code No.

Name	Age
Tenancy _____; Land Owned _____; Land leased to others _____; Land rented _____	
Gram Panchayat	Ward Village

FAMILY RECORD

Name	Relation	Age	Marital Status	Occupation

PART (A) FINANCIAL STATEMENT AS OF _____, 19__.

I Own			I Owe			
Real Estate	Hec.	Value	Liens on real estate	Due Date	%	Bal.
Livestock	No.	Value	Crop & Chattel debts			
Equipment			Taxes Due			
			All other debts			
Other Personal Property	Qty.	Value				
Total Owned	 	 	Total Debts	 	 	

NET WORTH=

PART (B) CROP PLAN

Plan						Actual			
Crop	Hec.	Yield per Unit	Operator's Share	Operator's Sales		Hec.	Yield per Unit	Operator's Share	Sales
				Amount	Value				
Totals									

PART (C) LIVESTOCK PLAN

Plan						Actual			
Kind	No.	Prod. per Unit	Operator's Share	Operator's Sales		No.	Prod. per Unit	Operator's Share	Sales
				Amount	Value				
Totals									

PART (D) RECOMMENDED FARM PRACTICES

Practice	How to carry out
1	
2	
3	
4	
5	

PART (E) SUMMARY OF OFF-FARM INCOME

Source of income and person earning it	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Totals												

Total Off-Farm Income: Rs. _____ NC

100.

PART (F) BUDGET				PART (G) CAPITAL EXPENDITURES			
Date Needed	Item	Plan	Credit	Item	Date Needed	Plan	Credit
	Cash Family Living Expenses						
	Food						
	Clothing			Total			
	Religious			PART (H) LOAN SUMMARY			
	Miscellaneous			For Family Living Expenses			Rs.
	Cash Farm Expenses			For Farm Operating Expenses			
	Seed			For Capital Expenditures			
	Feed			Total Loan Requirement			
	Fertilizer			PART (I) FINANCIAL SUMMARY			
	Spray material					Plan	Actual
	Hired labor			1. Farm Income (Pt B & C)			
	Hired bullocks			2. Other Income (Part E)			
	Taxes			3. Total Cash Income(1 & 2)			
	Rent			4. Total Cash Expenses(Pt.F)			
	Other			5. Net cash income (3-4)			
				6. Total Credit (Part H)			
				7. Total Available (5 & 6)			
				8. Capital Expenditures(Pt.G)			
	Total Expenses			9. Balance Available(7-8)			

PART (J) DEBT RE-PAYMENT SCHEDULE				
To Whom Owed	Amt. Due this year	Due Date	Amt. to be paid this year	Source of Funds
Total				

PART (K) TIMETABLE FOR CREDIT NEEDED BY MONTHS

Months	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept	Oct.	Nov.	Dec.	Remarks
<u>Family Living</u>													
Food													
Clothing													
Religious													
<u>Farm Expenses</u>													
Seed - paddy													
Other seed													
Feed													
Fertilizer													
Spray material													
Hired labor													
Hired bullocks													
Taxes													
Rent													
Capital Expenses													Tot.Credit
Totals													Rs.

NC

PART (L) LOAN APPLICATION

TO: The Management Committee

_____ Cooperative Society, Ltd.

At _____

I hereby apply for a loan of Rs. _____ NC and agree to abide by the rules of the society and fulfill all the conditions set forth in the documents made in connection with this loan.

Date: _____ X _____ Signature or print of thumb

A loan in the amount of Rs. _____ NC has been approved for above member based on this plan.

Date of Management Committee Meeting

X _____
Authorized signature for the Management Committee