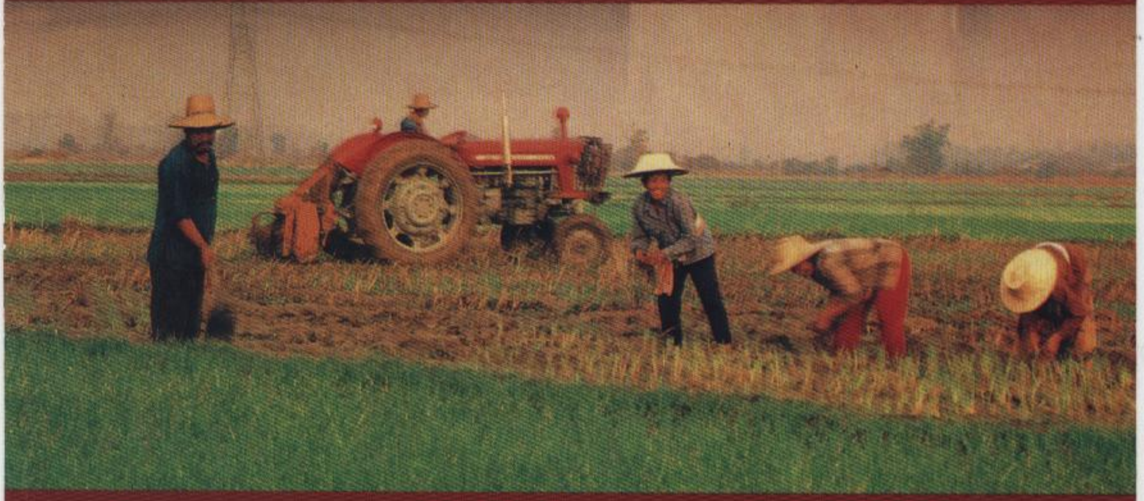
FINANCIAL FACILITIES *for* RURAL DEVELOPMENT *in the* SEACEN COUNTRIES

by
Than Ye



THE SEACEN CENTRE

FINANCIAL FACILITIES FOR RURAL DEVELOPMENT IN THE SEACEN COUNTRIES

by

Than Ye

The South East Asian Central Banks (SEACEN)
Research and Training Centre
Kuala Lumpur, Malaysia

FINANCIAL FACILITIES FOR RURAL DEVELOPMENT IN THE SEACEN COUNTRIES

Published by The South East Asian Central Banks (SEACEN)
Research and Training Centre
Lorong Universiti A,
59100 Kuala Lumpur, Malaysia.
Tel No: 03-7568622/7568587
Fax No: 603-7574616
Telex: MA 30201
Cable: SEACEN KUALA LUMPUR

ISBN: 983-9553-75-5

Printed in Malaysia by Graphic Stationers Sdn. Bhd.

FOREWORD

Most of the SEACEN countries have made much progress in the development of their industrial sector in the past two decades, yet at the same time their agricultural sector and rural development continue to require attention. In fact, most of the governments of these countries are committed to the promotion of rural development and have had their policies geared to achieve such desired goal. One of their concerns for rural development involves the provision of financial facilities as an indispensable input to stimulate development.

This study surveys the wide range of financing facilities available in the SEACEN countries for rural development, identifies the related problems and examines the reform measures undertaken in response to these problems. Briefly touching on each member's experience, the study has managed to capture the essential features of the financing facilities being provided to promote rural development in the SEACEN countries. As rural development is a continuing process, the materials assembled in this study should prove useful as a basis for future research, in particular, with reference to improving the accessibility of formal rural credit to small farmers. Lessons drawn from this study may serve as helpful guidance in future policy decisions.

This in-house study was conducted by U Than Ye, Senior Economist, seconded from the Central Bank of Myanmar to The SEACEN Centre. At the various stages of the project, U Than Ye was assisted by Mrs. Jami'ah Jaffar, Senior Research Associate, who took charge of the data collection, compilation, data transformation and provided the necessary research support. The manuscript was typed by Mrs. Haslina Muda.

The SEACEN Centre wishes to express its sincere gratitude to the participating member central banks for their timely provision of valuable and useful information in response to the questionnaire sent by The SEACEN Centre, contributing to a successful completion of this project.

The views expressed in this volume, however, are those of the author and do not necessarily reflect the views of the member central banks and monetary authorities or that of The SEACEN Centre.

Dr. Vicente B. Valdepeñas, Jr.
Director
The SEACEN Centre

Kuala Lumpur, Malaysia
March 1994

TABLE OF CONTENTS

Page

CHAPTER 3

MAJOR FINDINGS AND CONCLUDING REMARKS

LIST OF TABLES

Page

LIST OF CHARTS

FINANCIAL FACILITIES FOR RURAL DEVELOPMENT IN THE SEACEN COUNTRIES

U Than Ye

Introduction

The agricultural sector has been and still is an important sector in most of the SEACEN countries except Singapore. It may, however, be seen that with the progress being achieved in the industrial sector in the region, there has been an understandable decline in the share of the agricultural sector in the gross domestic product (GDP) where it has fallen from an average of 27.4 percent to 15.0 percent of GDP for the SEACEN group during the period 1976 to 1990. Yet, despite this development, the agricultural sector continues to receive attention based on the policies adopted for the advancement of this sector. Except for Korea and Singapore, about 60 to 80 percent of the total population in the SEACEN countries live in the rural areas and those employed in the agricultural sector account for almost 50 percent of the total employment population in over half of the SEACEN countries, with Nepal's ratio reaching as high as 90 percent.

Promoting the development of the agricultural sector involves, among others, the need to finance rural development. Financial facilities for rural development, undoubtedly play a supporting role, and may not necessarily be the sole or the most important component in the set of services that stimulate rural development. However, one cannot question the importance and indispensability of financial facilities for rural development.

The SEACEN countries with their diverse resource endowments, socio-economic characteristics and various stages of economic development provide an ideal setting for undertaking a research study on the important subject of the financial facilities for rural development in the region. This study, therefore, attempts to receive a survey of the financial facilities being employed for rural development in the SEACEN countries with a view to getting a better understanding of the subject and to draw lessons for planning future rural development strategies and policies.

Objectives of the Research Study

The objective of this study is to examine and evaluate the financial facilities for rural development in the SEACEN countries with reference to

(a) the financial needs of the rural sector,
(b) the salient features of rural credit,
(c) the role of institutional sources of rural credit facilities,
(d) the present role of rural credit insurance schemes,
(e) problems of subsidised rural credit,
(f) progress achieved in the implementation of rural credit schemes, and
(g) to evaluate the impact of these schemes on the development of rural sector and on the overall economic development of the SEACEN countries.

Scope and Organisation of the Study

The study, as approved, is an in-house research project and is basically informative in nature. Therefore, a questionnaire asking for the pertinent latest data and information in connection with the financing facilities for rural development was sent to the member central banks and monetary authorities. Responses were received from Bank Indonesia, the Bank of Korea, Bank Negara Malaysia, the Central Bank of Myanmar, Nepal Rastra Bank, the Central Bank of Philippines, the Central Bank of Sri Lanka, The Central Bank of China, Taipei and the Bank of Thailand. The Monetary Authority of Singapore suggested that Singapore be omitted from this study as Singapore does not have a rural sector. The scope of the study is therefore confined to the nine member countries.

The scope of this study is also limited to those financial facilities for rural development for which information is available from in-house sources and from the response of the SEACEN member banks to the survey questionnaire. In other words, it is not the intention of this study to attempt an inexhaustible coverage of all these facilities. Analysis is carried to the extent permitted by available sources.

This study is divided into three chapters. The first chapter is a brief survey of the financial facilities for rural development in the SEACEN countries. The second chapter looks into the financing strategies employed in rural development in the region and probes into the reasons behind the success and failures of these financing strategies. The third chapter highlights the major findings and concludes with suggestions for future guidance. This study mostly covers the period 1980-90, though updated for years when data are available.

Limitations of the Study

This study, being an in-house project, extensively used information available in the in-house sources and out of the answers to the questionnaire sent to the member central banks and monetary authorities. Without the solid support of the country papers as in the collaborative project, in-depth analysis may not be possible. As the nature of the project is mostly related to the historical aspects of financial facilities for rural development, the scope for a quantification approach is limited.

Since the subject of rural development embraces an extensive field, this study does not aim to cover the entire range of financial facilities for rural development. This implies some limitations in terms of details, such as a complete list of external financial facilities and the accuracy of data on informal rural credit. Anyway, every effort has been taken to produce out a study which will give a good picture of the rural development financing facilities in the SEACEN countries.

Chapter 1

A BRIEF SURVEY OF THE FINANCIAL FACILITIES FOR RURAL DEVELOPMENT IN THE SEACEN COUNTRIES

The importance attached to rural development in most of the SEACEN countries may be gathered in part from the various financial facilities being employed to achieve a better socio-economic life in the rural areas in these countries. This section is a brief survey of the financial facilities for rural development in the SEACEN countries. At the outset, the concept of rural development for this study is taken to mean the development of the life and activities in all their socioeconomic aspects in the rural areas.

I. Financial Facilities for Rural Development in Indonesia

1.1 The Role of Agricultural Sector in the Economy

In Indonesia, the share of the agricultural sector to GDP fell from 36.1 percent in 1976 to 25.7 percent in 1990. In terms of employment, the agricultural sector remains the most important sector with over 50 percent of the labour force engaged in this sector.

Table 1.1

INDONESIA: SECTORAL SHARE IN GDP AND EMPLOYMENT SHARE IN AGRICULTURE

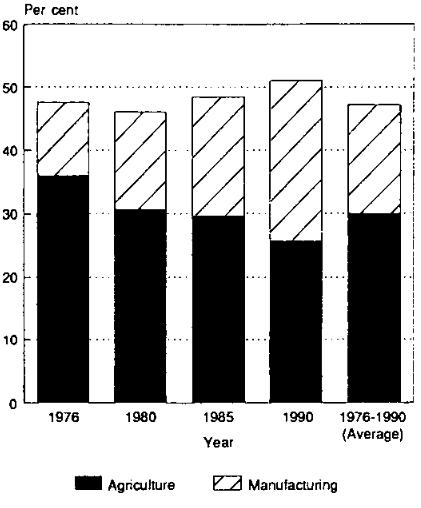
(1973 constant prices; per cent)

	1976	1980	1985	1990	1991	Average 1976-1991
GDP growth rate	6.9	9.9	2.5	7.3	-	6.3
Agricultural sector growth	4.7	5.2	4.3	3.4	-	3.7
Manufacturing sector growth rate	9.7	22.2	11.2	23.6	-	12.5
Agricultural sector share in GDP	36.1	30.7	29.7	25.7	-	30.0
Manufacturing sector share in GDP	11.4	15.3	18.7	25.3	-	17.1
Employment share in agri.	61.6	55.9	54.7	54.8	-	57.8

Source: Bank Indonesia.

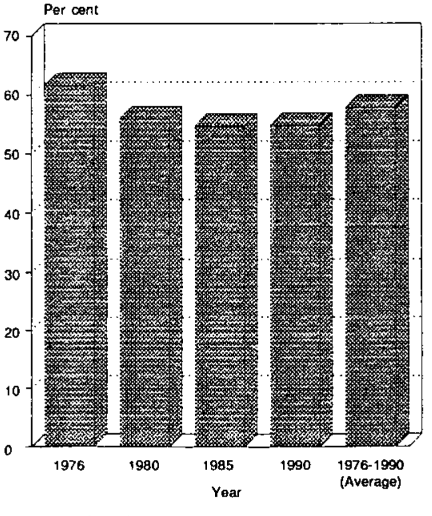
Indonesia

CH 1.1a: SECTORAL SHARE IN GDP
(1973 Constant Market Prices)



Source: Bank Indonesia

CH 1.1b: EMPLOYMENT SHARE IN AGRICULTURE
(1973 Constant Market Prices)



Source: Bank Indonesia

With regard to the share of the agricultural sector's exports to overall non-oil/gas exports, the average is 53.6 percent during the 1979-89 period. These data show that the agricultural sector continues to occupy a place of importance in the Indonesian economy; and, thus the government's attention to its development. Rural development in Indonesia is one of the government's priority areas, as it is an integral part of the country's poverty alleviation programme. In the years following 1965, the government concentrated exclusively on the agricultural sector until the late 1970's. Since then, there has been a massive programme for rural development that included a rice intensification campaign and a widespread expansion of rural infrastructure.

1.2 Institutional Financing for Rural Development

Institutional financing of agricultural activities is served by Bank Indonesia (BI), Bank Rakyat Indonesia (BRI), Bank Bumi Daya (BBD), Badan Kredit Kecamatan (BKK), and Kredit Umum Pedesaan or General Rural Credit Programme (BUD). As in most of the SEACEN countries, the informal sector in Indonesia has also been an important source of credit to the rural sector, although data are not available. Aware of the importance of the financing aspects of rural development, the government has participated actively in this field.

The Bank of Indonesia does not directly finance rural development but issues guidelines and directives which are implemented by the state and other private banks. It supplies funds to the state banks involved in the financing of agriculture for on-lending to agricultural activities. Like other central banks, it undertakes rediscounting function to provide additional funds for rural developemnt. BRI is mainly concerned with the agricultural and cooperative sector and with rural activities. It extends loans to these sectors including fishery, livestock, poultry, perennial crops and cooperatives. It also provides financial aid to small and home industries not yet organised into cooperatives, assists in the implementation of government policies as well as the government rural development programmes, and supervises village banks, paddy banks and market banks, jointly with the central bank.

In implementing the Agricultural Intensification Programme, the Indonesian government has undertaken a comprehensive project known as "BIMAS" which combines extension services with the application of intensive farming methods. BRI has been assigned to provide the Bimas farmers with credit to purchase the necessary farm inputs. Bimas loans are granted for rice as well as for other crops such as corn, soyabean, peanut, mungbean, cassava, sweet potato and sorghun. BRI undertakes another important function, that of providing loans to the cooperatives. In fact, BRI is the main source of bank loans to the cooperatives.

BBD's operations focus on forestry and the estate sector such as plantations. BKK is a "mobile banking" system providing standardised financial services at the village level. Lending procedures are designed to be simple, since the majority of the clients have very low incomes, and are often illiterate. The loan process introduces villagers to the financial system and prepares them for larger loans. Its objective is to make credit accessible to the rural poor for off-farm income-generating activities. BUD provides credit and saving facilities for small-income activities (primarily rural). It has been most successful in terms of savings mobilisation.

In the overall picture, banks' outstanding credits to the agricultural sector showed more than a three-fold increase for the past five years ending 1991. The state banks accounted for over 90 percent of the outstanding credits. Regarding banks and outstanding investment, in rupiah credits in the agricultural sector, one can observe that the state banks again dominated the scene for the same period with a share of over 90 percent. The state banks were also the major financiers of investment in the agricultural sector in rupiah and foreign currency. Back in 1987, their share of the total in this activity was 98 percent, which fell slightly to 92.6 percent in 1991, as may be seen in Tables 1.2, 1.2a, and 1.2b.

Table 1.2

INDONESIA: BANKS' OUTSTANDING CREDITS (IN RUPIAH) IN AGRICULTURAL SECTORS 1/

(Billion Rupiah)

	1987	**1988**	**1989**	**1990**	**1991**
State Banks	2480	3320	4687	5981	6980
	(94.3)	(92.9)	(89.9)	(89.6)	(87.5)
Private National Commercial Banks	97	186	446	782	890
	(3.7)	(5.2)	(8.6)	(11.4)	(11.2)
Regional Development Banks	48	60	67	88	97
	(1.8)	(1.7)	(1.3)	(1.3)	(1.2)
Foreign Banks	5	6	14	33	12
	(0.2)	(0.2)	(0.3)	(0.5)	(0.2)
Total	2630	3572	5214	6884	7979

Note:

1/ Excluding rural credit banks

Table 1.2a

INDONESIA: BANKS' OUTSTANDING INVESTMENT CREDITS (IN RUPIAH) IN AGRICULTURAL SECTOR

(Billion Rupiah)

	1987	1988	1989	1990	1991
State Banks	1657	2184	3174	4089	4845
	(98.0)	(96.7)	(95.3)	(92.6)	(93.3)
Private National Commercial Banks	17	52	128	280	293
	(1.0)	(2.3)	(3.8)	(6.3)	(5.6)
Regional Development Banks	16	22	30	47	54
	(0.9)	(1.0)	(0.9)	(1.1)	(1.0)
Foreign Banks	-	-	-	-	-
Total	**1690**	**2258**	**3332**	**4416**	**5192**

Table 1.2b

INDONESIA: BANKS' OUTSTANDING INVESTMENT CREDITS (IN RUPIAH AND FOREIGN EXCHANGE) IN AGRICULTURAL SECTOR

(Billion Rupiah)

	1987	1988	1989	1990	1991
State Banks	1657	2210	3199	4184	5047
	(98.0)	(96.8)	(95.3)	(92.6)	(92.6)
Private National Commercial Banks	17	52	128	285	328
	(1.0)	(2.3)	(3.8)	(6.3)	(6.0)
Regional Development Banks	16	22	30	47	54
	(0.9)	(1.0)	(0.9)	(1.0)	(1.0)
Foreign Banks	-	-	-	-	-
Total	**1690**	**2284**	**3357**	**4520**	**5450**

Figures in parentheses represent the percentage share in total outstanding credits.

Source: Indonesia Financial Statistics, Vol. XXVI, No. 02, February 1993.

Prior to the financial reforms of June 1983, Bank Indonesia provided rediscount credits to priority sectors (called liquidity credit) at highly subsidised rates. The aim of the June 1983 reform was for banks to maximise the mobilisation of funds from the public and reduce their dependence on the liquidity credit from Bank Indonesia. The January 1990 reform was aimed at gradually phasing out the share of Bank Indonesia's liquidity credit. Interest rate controls on state banks were removed and the interest rate was set according to the play of market forces. The number of subsidised credit schemes was reduced from twenty three to only four under the 1990 reform. These consist of credit (1) to farmers for working capital (Kredit Usaha Tani or KUT), (2) to the cooperatives for financing food purchases or production activities, (3) to BULOG for financing food stock and sugar procurement, and (4) investment credit. Since February 1990, banks including rural credit banks have been required to extend loans from their own funds to small-scale business up to 20 percent of their total deposits. In addition, one important source of financing for rural development comes from the international loans obtained by Bank Indonesia.

Apart from providing financing facilities for the agricultural sector, the Indonesian government devotes its attention to alleviation of rural poverty as part of its rural development effort. This is very clearly shown in its attempt at reducing poverty by greater public investment in the human capital resources in terms of better health facilities as well as improved and wider education facilities. Health services for Indonesia's million of rural people have been expanded. Achievements in the field of health and nutrition are reflected in the increase in life expectancy in 1990 to 62 years from 45 years in 1969. With regard to education, its budget allocation has increased relative to the overall government expenditure. Starting in 1974, the Indonesian government increased its spending on primary education. The suspension of primary school fees in 1977/78 further improved the access of poor families to education. By 1987, net primary school enrollment had climbed to 95 percent in the rural areas while 80 percent of people over the age of seven were literate.

II. Financial Facilities for Rural Development in Korea

2.1 The Role of Agricultural Sector in the Economy

The Korean economy was primarily agrarian as far back as 1953-55 when the agricultural sector accounted for 51 percent of GDP.

But since the 1960's, its economy has undergone radical structural transformation which saw rapid industrialisation, reducing the share of the agricultural sector in the GDP from 22.5 percent in 1976 to 7.1 percent in 1991. Industry rose from 22.3 percent to 33.6 percent during the same period. A similar downtrend in employment was observed when the share of employment in the agricultural sector fell from 44.6 percent to 16.7 percent during the same period.

Table 1.3

KOREA: SECTORAL SHARE IN GDP AND EMPLOYMENT SHARE IN AGRICULTURE

(1985 constant prices; per cent)

	1976	1980	1985	1990	1991	Average 1976-1991
GDP growth rate	-	-2.2	6.9	9.2	8.4	8.4
Agricultural sector growth rate	-	-19.1	3.8	-5.1	-0.8	0.4
Manufacturing sector growth rate	-	-0.7	7.1	9.1	8.5	11.4
Agricultural sector share in GDP	22.5	14.2	12.8	7.8	7.1	13.6
Manufacturing sector share in GDP	22.3	26.7	30.3	33.6	33.6	29.3
Employment share in agri.	44.6	34.0	24.9	18.3	16.7	29.0

Source: *Key Indicators Developing Asian and Pacific Countries,* ADB, various issues.

Even as the importance of the agricultural sector has receded, the nationwide campaign to rehabilitate the rural economy in order to make headway for rural development has proved successful. The use of necessary inputs and facilities was encouraged by subsidised inputs, support prices for farm commodities and easy access to extension and research services which helped bring about the modernisation of the rural sector. In this process, the financing aspects particularly for the cooperatives played an important part.

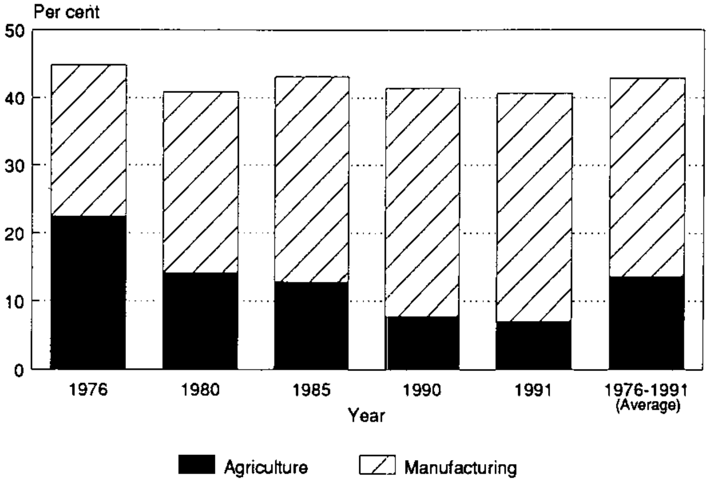
2.2 Institutional Financing for Rural Development

In Korea, the share of informal credit accounts for 51 percent[1] of total rural credit. The agricultural cooperatives are mainly responsible

1. *Yearbook of Agricultural and Forest Statistics,* 1982, Ministry of Agricultural and Forestry.

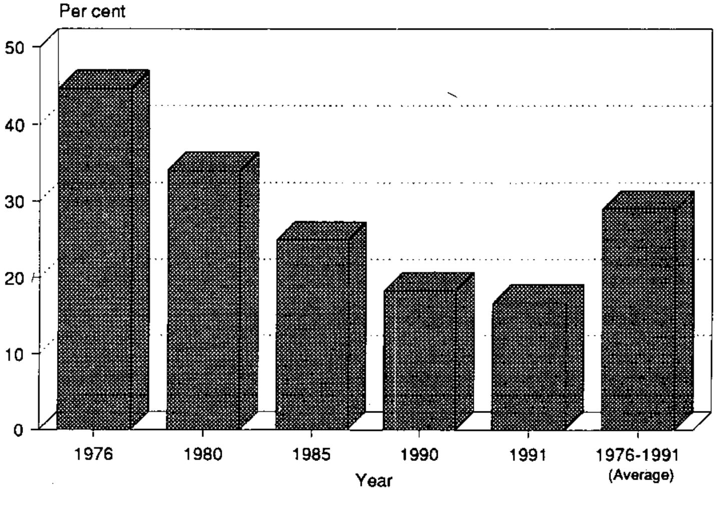
Korea

CH 1.2a: SECTORAL SHARE IN GDP
(1973 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

CH 1.2b:EMPLOYMENT SHARE IN AGRICULTURE
(1973 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

for the formal rural credit. The agricultural cooperative system in Korea is a multi-purpose organisation with a three-tiered structure, i.e. natural, regional and primary. The agricultural cooperatives in Korea are engaged in various activities, including credit, marketing and even cooperative insurance.

Credit funds included those from the National Agricultural Cooperative Federation (NACF), the National Fisheries Cooperative Federation (NFCF), the National Livestock Cooperative Federation (NLCF), Bank of Korea loans, government funds and foreign loans. The NACF is the main supplier of agricultural credit to farmers. It supplied 83.9 percent of the total agricultural credit in 1988. There were two distinctive characteristics of agricultural credit policy in the 1980's. The first was the expansion of the mid-term and long-term agricultural credit, with a view to agricultural restructuring. The Farm Mechanisation Fostering Fund and the Farm Successor Fostering Fund were established in 1980 and the Rural Area Development Fund in 1987. The second was the alleviation of the economic burden of farm households through the reduction of interest rates.

To enable the farmers to have better credit access, mortgaging of land which had previously prohibited under the Farm Land Mortgage was relaxed to increase their borrowing capacity by mortgaging their land. The interest rates on certain loans provided by the agricultural cooperatives are lower than the actual cost of the fund and the government has subsidised the difference. The Agricultural Credit Guarantee System supplies agricultural credit to those farmers who are short of collateral. The Credit Card System is intended to meet the demands for loans throughout the year. Credit limits are decided depending on farm size, farm income, repayment performance, etc.

The financing for rural development extended by banks and cooperatives is furnished below. The volume of long term financing is very much larger than that of short term financing, though a rising trend is observed in both.

Table 1.4

THE FINANCING FOR RURAL DEVELOPMENT EXTENDED BY THE BANKS AND COOPERATIVES (As of the end of each year)

(Billion Won)

	Short-term	Long-term 1/	Total
1983	796.8	1160.1	1956.9
1984	978.8	1490.5	2469.3
1985	1093.2	1777.2	2870.4
1986	1304.9	2047.0	3351.9
1987	2038.2	2333.6	4371.9
1988	1725.0	2633.0	4358.0
1989	2023.6	3108.7	5132.3
1990	2483.8	3753.2	6237.0
1991	2730.4	4423.4	7153.8
1992	2435.1	5156.1	7591.2

Note:

1/ With a maturity of more than 1 year. Repayment data are not available and it is not possible to distinguish terms and conditions by loan period.

Source: The Bank of Korea, *Monthly Bulletin*, each year.

The Bank of Korea, Korea's central bank does not directly finance rural development, as some of its counterparts in the SEACEN countries do. It does, however, get indirectly involved in providing funds to institutions which in turn lend them to the agricultural sector through their refinancing facilities. It regulates the flow of loans to sectors which are deemed essential for economic growth and these include the agricultural sector. In fact, with Won 16 trillion public investment for the agricultural sector for 1989-92, the Korean government launched the Comprehensive Rural Development Plan in April 1989. The Plan's aim was to increase farm size, promote farm mechanisation, support industrialisation in the rural areas, and improve the infrastructure in the rural areas through structural adjustment. This Plan has now been replaced by the Rural Restructuring Plan which aims to further enhance efficiency in agricultural production and to promote non-agricultural income generations in the rural areas. Expenditure for rural development allocated by the budget shows a rising trend, as seen from the table below.

Table 1.5

RURAL DEVELOPMENT EXPENDITURE1/ IN THE GOVERNMENT BUDGET

(Billion Won)

	Total	Central Government	Local Government
1983	1078.3	627.4	450.9
1984	1567.3	1038.9	528.4
1985	1849.1	1234.6	614.5
1986	1852.2	1148.9	703.3
1987	2342.8	1436.6	906.2
1988	3432.6	2347.9	1084.7
1989	4204.7	2752.8	1451.9
1990	5095.2	3410.3	1684.9
1991	6117.4	3754.8	2362.6
1992	7441.6	4283.3	3158.3

Note:

1/ Amount of expenditure cannot be divided by capital and current expenditure.

Source: The Ministry of Finance, *Government Finance Statistics in Korea*, each year.

It should also be noted that foreign loans constitute an important source of finance for rural development. Foreign loans totalling U.S. dollars 1394 million[2] have been invested in the agricultural sector. Foreign loans for rural and agricultural development were mostly invested in the 1960's and 1970's, focusing on infrastructure building such as farmland consolidation and reclamation, water and irrigation system and farm roads. Data on financing from external sources for rural development for the past ten years are given below:

Table 1.6

EXTERNAL FINANCING
(As of the end of each year)

(Million Won)

	IBRD	ADB	OTHERS	TOTAL
1982	34918	2168	41361	98447
1983	49787	2136	39490	91413
1984	50471	1995	37690	90156
1985	49942	1824	38240	90006
1986	63457	1624	37079	102160
1987	74261	1406	62135	137802
1988	75123	1138	76631	152892
1989	70535	848	74524	145907
1990	65435	499	73281	139215
1991	60329	79	71298	131706

Source: The National Agricultural Cooperatives Federation, *Agricultural Cooperative Yearbook,* each year.

Finally, the rural poverty alleviation programme in Korea includes such measures aimed at improving education and health conditions in the rural areas. In 1985, for instance, the government undertook integrated policy measures for rural development and alleviation of the economic burden of farm households. The measures consisted of

2. Chung, Ki-Whan and Nae-Won Oh, "Rural Poverty in the Republic of Korea: Trends and Policy Issues", *Asian Development Review,* Vol. 10, No. 1, ADB, 1992.

lowering of interest rates and offering of tuition fees exemptions. In 1988, 47.9 percent of poor households benefited from the education subsidy programme. As regards health, public health centres have been established in each county, each with a doctor and a dentist. With a view to improving the access of rural people to medical care, a compulsory medical scheme (Rural Medical Insurance System) was introduced in 1988. The absolute poor are exempted from paying all medical fees and the relatively poor are partly exempted from such charges.

III. Financial Facilities for Rural Development in Malaysia

3.1 The Role of Agricultural Sector in the Economy

The emergence of rapid expansion of the non-agricultural sectors in Malaysia has brought about significant structural changes in the country for the past decade. Despite the fall in the share of the agricultural sector in the GDP from 27.2 percent to 17. 3 percent in the period 1976 to 1991 and its share in employment shrinking from 43.6 percent to 26.8 percent within the period, this sector continues to play a major role in the Malaysian economy.

Table 1.7

MALAYSIA: SECTORAL SHARE IN GDP AND EMPLOYMENT SHARE IN AGRICULTURE

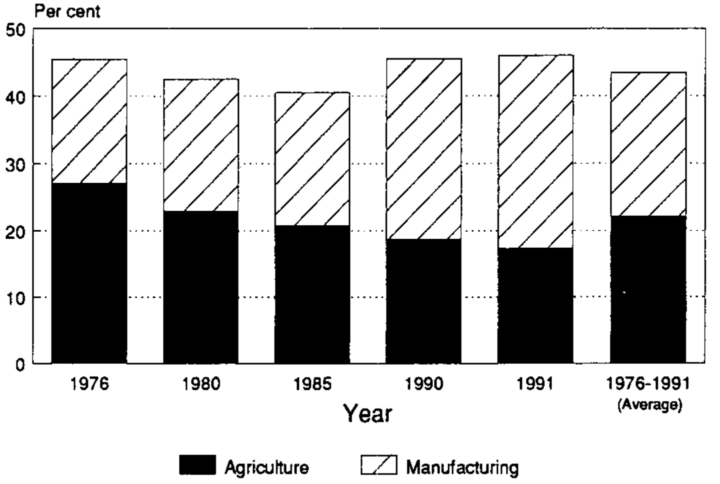
(1978 constant prices; per cent)

	1976	**1980**	**1985**	**1990**	**1991**	**Average 1976-1991**
GDP growth rate	11.6	7.4	-1.1	9.8	8.6	6.6
Agricultural sector growth rate	12.2	1.3	2.0	0.4	0.1	3.4
Manufacturing sector growth rate	18.5	9.2	-3.8	17.9	15.5	9.8
Agricultural sector share in GDP	27.2	22.9	20.8	18.7	17.3	22.1
Manufacturing sector share in GDP	18.3	19.6	19.7	26.9	28.7	21.4
Employment share in agri.	43.6	37.2	31.3	27.8	26.8	34.4

Source: *Key Indicators Developing Asian and Pacific Countries,* ADB, various issues.

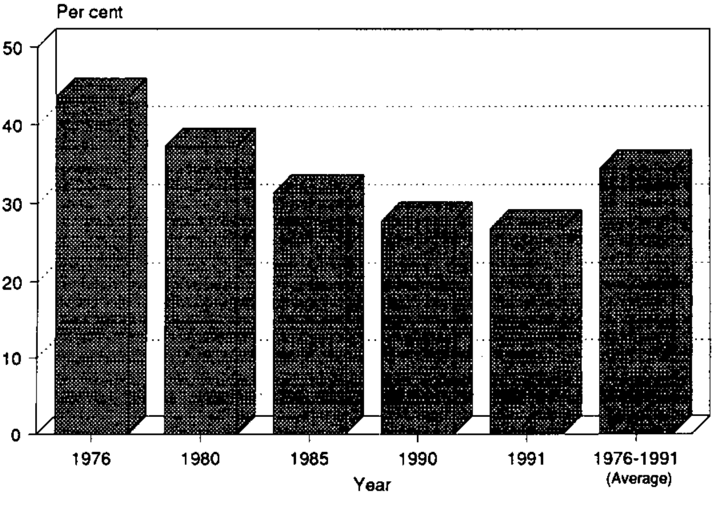
Malaysia

CH 1.3a: SECTORAL SHARE IN GDP
(1973 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

CH 1.3b:EMPLOYMENT SHARE IN AGRICULTURE
(1973 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

This may be due to the strong commitment to rural development by the Malaysian government, as may be gathered from the list of ministries involved in the development of the rural sector: the Ministry of Agriculture, Ministry of Land and Regional Developments, Ministry of National and Rural Development, Ministry of Primary Industries, Ministry of Public Enterprise National Paddy and Rice Board, Ministry of Trade and Industry, Ministry of Health and Ministry of Education. In addition, there are various departments and agencies with responsibilities for rural development, foremost of which is the Agricultural Bank of Malaysia which provides agricultural credit.

3.2 Institutional Financing for Rural Development

By the end of 1990, the share of institutional financing of the agricultural sector to aggregate financing of all sectors was 9.5 percent, down from 13.5 percent in 1980. For the period 1980-90, long-term institutional agricultural financing made up the bulk of the agricultural sector's total financing, averaging 78 percent. Given the long gestation period involved in the agricultural sector, such as in the case of rubber and palm oil, it is understandable that formal financing should take the major share in the long-term financing of agriculture. Formal agricultural credit expanded by about three times for the 1980-90 period, but its share in the total institutional financing fell from 13.5 percent to 9.5 percent in the comparable period. In the overall rural credit picture, the informal credit supplied 75 percent[3] of the total rural credit.

The importance of agricultural and rural development in Malaysia's overall economic development strategy may be observed from the public expenditure allocated for agricultural and rural development which amounted to RM 1.11 billion in the First Malaysian Plan (1966-70) but rose to RM 8.71 billion by the Fifth Malaysian Plan (1986-90). Despite the increase in absolute terms, the expenditure for agricultural and rural development as a ratio of total development expenditure actually fell from 26 percent to only 12 percent. Notwithstanding this, the allocation of expenditure for agriculture and rural development remained substantial like those for social amenities, defense, commerce and industry.

---

3. Ghate, P. B., "Interaction Between the Formal and Informal Financial Sectors: The Asian Experience", *World Development* Vol. 20, No. 6, p. 860, June 1992.

Table 1.8

INSTITUTIONAL FINANCING OF AGRICULTURAL SECTOR

(Million Ringgit)

	Long-term Financing 1/		Total Financing 2/		
	Agri. Sector	All Sector	Agri. Sector	All Sector	A/D
1980	2859.4 (22.8)	12552	3952.3 (13.5)	29367	72.3
1981	3467.9 (21.2)	16388	4614.4 (12.6)	36528	75.2
1982	4527.7 (19.7)	22983	5891.0 (13.6)	43340	76.9
1983	5221.1 (20.3)	25719	6779.3 (12.5)	54047	77.0
1984	5918.8 (17.4)	33976	7532.8 (11.6)	64675	78.6
1985	6312.0 (16.2)	39026	8054.4 (11.0)	73391	78.4
1986	6700.9 (15.7)	42595	8562.0 (11.0)	77858	78.3
1987	6993.9 (15.4)	45298	8676.4 (11.1)	77947	80.6
1988	7479.5 (14.6)	51264	9230.0 (10.8)	85226	81.0
1989	8022.5 (15.1)	53154	10155.0 (10.1)	100820	79.0
1990	9192.9 (14.0)	65804	11700.5 (9.5)	123343	78.6
Average annual rate of increase of 1981-1990	12.7	18.6	11.9	15.7	-

Notes:

1/ Refers to loans with maturities of over one year.

2/ Refers to total loans extended by the banking system and the agricultural credit institutions.

Figures in parentheses represent the share of that sector to the overall sector total.

Source: Economics Department, Bank Negara Malaysia.

Bank Negara Malaysia, the central bank of Malaysia, does not directly finance rural development. Rather, its support is more indirect with its general policy guidelines, requiring the commercial banks and finance companies to channel a certain percentage of their loans to priority sectors, including the agricultural sector. The New Investment Fund (NIF), established jointly by the government and the Central Bank in 1985 with an initial allocation of RM 1 billion and later increased to RM 1.7 billion, aimed at providing new investment finance at concessional interest rates during the period of tight liquidity and high interest rates. However, with the improved liquidity situation and decline in interest rates, NIF was terminated in 1987. In numerical terms, the agricultural sector enjoyed financing facilities amounting to 19 percent of RM 1.4 billion issued from the NIF.

The Central Bank encouraged commercial banks to expand their network in the rural areas, with the view to providing credit to the agricultural sector and also providing discounting facilities to those banks issuing agricultural loans. Bank Negara Malaysia also set up the Enterprise Rehabilitation Fund (ERF) in 1980 to provide financial assistance to ailing but viable enterprises. The agricultural sector was one of the sectors which benefitted from the Fund.

Apart from the above-mentioned Central Bank financing facilities for the agricultural sector, commercial banks and rural credit institutions provided most of the institutional finance to the rural sector. Rural credit institutions which consisted mainly of the rural cooperative societies, farmers' associations, Agricultural Banks and Bank Rakyat are mainly agro-based institutions. The role of the rural cooperative societies is complemented by Bank Rakyat which extended medium-and long-term loans to member cooperatives. Farmers' associations operated alongside the rural cooperative societies, which eventually led to some duplication of functions and undue competition. As a result, a more integrated approach to rural development was adopted and rural credit institutions were consequently reorganised. Thus in 1973, the Farmers' Organisation Authority (FOA) was established to coordinate the activities of the agro-based cooperative societies, the farmers' associations and also the public authorities enterprises engaged in agricultural financing. The major function of the FOA is providing credit and subsidies to farmers' organisations under its supervision especially for crop production financing, purchase of farm equipment and development of infrastructure facilities. The Federal Land Development

Authority (FELDA), established in 1965, finances new land development schemes. To complement FELDA's role, the Agricultural Bank of Malaysia (ABM) was established in 1969 to promote sound agricultural development and its related activities through the mobilisation of rural savings and the provision of credit facilities. Since 1981, the government has provided grants to the ABM for relending as "welfare loans" at interest rates of 2 percent, with the aim of alleviating poverty in the agro-based community. ABM's main task was to provide credit facilities to farmers and fishermen, in addition to a variety of loan programmes which catered to the needs of all levels of production, processing and marketing activities of the agricultural sector.

Apart from its own credit programmes, the ABM also worked closely with the other government agencies to implement part of their project. One such example may be found in the Special Integrated Agricultural Loan Programme (SPKP) in which ABM was responsible for managing special allocation to finance certain integrated projects. Since 1986, ABM has identified 16 commodities for which tailored lending programmes were introduced.

In addition to the above, there are other institutional means for financing the agricultural sector in Malaysia. This may be found in the following:

The ASEAN - Japan Development Fund (AJDF) was launched in 1989 to provide concessional loans to small- and medium- scale business in the manufacturing, agricultural and tourism sectors. Initial allocation stood at RM 895 million. This was channelled through (1) the Industrial Development Bank (RM 235 million), (2) the Malaysian Industrial Development Finance (RM 270 million), (3) the Development Bank of Malaysia (RM 195 million), and (4) the Agricultural Bank of Malaysia (RM 195 million).

The Credit Guarantee Corporation (CGC) which was established in 1973 does not grant loans but provides guarantees on loans made by commercial banks to small-scale enterprises. The Federal Land Consolidation and Rehabilitation Authority (FELCRA) provides credit not only for the rehabilitation of projects on government lands but also for the development of new lands that are deemed suitable for agriculture in the remote and interior areas in order to increase agricultural production and farmers' income. Credit for the agricultural sector was also provided by the Rubber Industry Smallholders Authority (RISDA) for replanting, intercropping, redemption of land titles and consumption during the period of crop immunity and other agricultural activities. In addition, the National Tobacco Board provides fertilizer credit to curers of tobacco leaves and to other tobacco industry areas, while the Federal Agricultural Marketing Authority (FAMA) provided production credit especially for crops such as cocoa, coffee, pepper and vegetables.

In the presence of these sources of formal credit for agricultural activities, the Malaysian authority attempted a novel experiment by using informal lenders as channels for delivering credit to farmers in the Muda Padi Production Credit Scheme in 1978. This was carried out by Bank Pertanian Malaysia with the funding provided by the World Bank. Originally, private merchants were selected along with government-sponsored farmers' associations to serve as "Local Credit Centre", with the responsibility of distributing agricultural inputs to farmers on credit[4]. Private merchants proved to be an important factor in the early success of the project and were relatively successful in their credit extension and collection activities. However, the private merchants were gradually phased out of the programme in favour of the farmers' associations. Since then, it was observed that the implementation of the facility has not been as successful. This project provides a good example of the possibility of incorporating informal lenders in institutional credit schemes.

Rural industrialisation as a part of rural development is being carried out in Malaysia with the government offering incentives in the private sector for the promotion of rural small-scale industries and other non-agricultural enterprises. Efforts at improving health and education facilities to contribute to rural development in Malaysia may be found in the increasing expenditures for the primary and secondary levels. The Textbook Loan Scheme of 1975 was an effective programme in providing assistance to poor students. The government also directed colleges to increase their admission of rural school children. With regards to rural health services, Malaysia has managed to reduce the mortality rate from an average of 40.8 percent in 1970 to 28.1 percent

4. Asian and Pacific Regional Agricultural Credit Association, "Agricultural Credit Policies and Programmes for Small Scale Agricultural Development in Malaysia", February 1981, p. 98.

in 1980. One can observe that the general trend has been increasing with some drops in 1988 and 1991-92. The amount of financing for rural development extended by external sources is provided in Table 1.9.

Table 1.9

TOTAL FINANCING EXTENDED BY EXTERNAL SOURCES FOR RURAL DEVELOPMENT 1/

Year	Million US Dollar
1983	65.6
1984	56.9
1985	56.6
1986	84.4
1987	100.6
1988	76.8
1989	114.0
1990	336.4
1991	220.0
1992 (Preliminary)	178.9

Note:

1/ Agricultural development.

Source: Replies to the SEACEN Financial Facilities for Rural Development Project Survey Questionnaires.

IV. Financial Facilities for Rural Development in Myanmar

4.1 The Role of Agricultural Sector in the Economy

The importance of rural development in Myanmar may be gathered from the fact that its whole economy revolves practically around agriculture. In 1991, the agricultural sector accounted for 49.2 per cent of GDP and provided 66 per cent of employment with 75 per cent of the population residing in the rural areas. The predominance of agriculture in the Myanmar economy has naturally led the Government to focus its attention on the development of this sector.

Table 1.10

MYANMAR: SECTORAL SHARE IN GDP AND EMPLOYMENT SHARE IN AGRICULTURE

(1985/86 constant prices; per cent)

	1976	1980	1985	1990	1991	Average 1976-1991
GDP growth rate	-	7.9	2.8	5.7	1.2	3.1
Agricultural sector growth rate	-	10.3	2.1	6.3	-0.2	3.4
Manufacturing sector growth rate	-	7.5	2.9	6.9	-0.5	2.5
Agricultural sector share in GDP	47.0	48.2	48.2	49.9	49.2	48.4
Manufacturing sector share in GDP	10.1	9.6	9.9	9.3	9.2	9.6
Employment share in agri.	67.9	66.8	65.8	65.6	-	66.3

Source: *Key Indicators Developing Asian and Pacific Countries,* ADB, various issues.

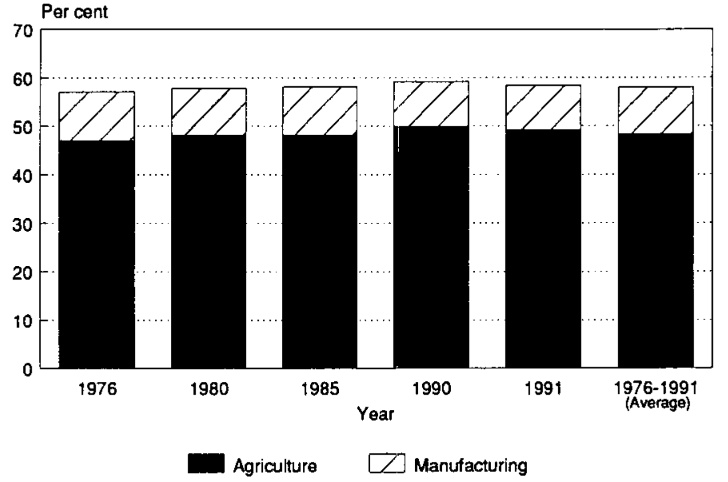
Immediately after Myanmar regained its independence in 1948, the Government dealt with problems associated with agricultural activities. Tenancy problems were addressed by the 1957 Land Nationalisation Act which proclaimed that all lands belonged to the state and that farmers have the right to pursue their farming activities. The 1963 Law Safeguarding the Right of Cultivators provided farmers protection against foreclosures by debtors. With such concern for the farmers, the State also took up the problem of agricultural credit.

4.2 Institutional Financing for Rural Development

The State set up the State Agricultural Bank in 1953 to attend to the agricultural credit needs of farmers. Village banks borrowed from this state agricultural bank to on-lend to their farmer members. The village banks were responsible for the disbursement and collection of loans. There were no collaterals for the loans, only the collective

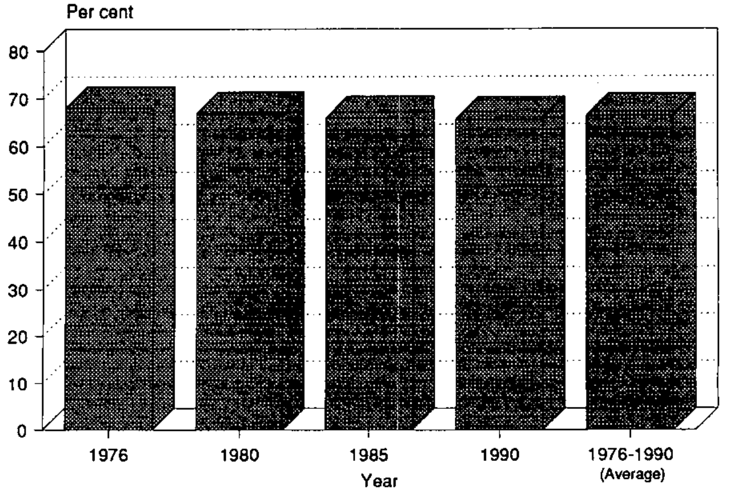
Myanmar

CH 1.4a:SECTORAL SHARE IN GDP
(1985/86 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

CH 1.4b:EMPLOYMENT SHARE IN AGRICULTURE
(1985/86 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

guarantee of the members. In districts where village banks had not been opened, the district branches of State Agricultural Bank granted loans to rural cooperative societies for on-lending to their members. Channeling rural credit through rural cooperatives was terminated in April 1958, in line with the policy of requiring agriculturists to receive loans only from a single state agency. After building up their own resources, village banks used to grant loans to members from that source. In conformity with the Government policy that only the State Agricultural Bank was to issue agricultural loans, the granting of loans from the owned resources of village banks was terminated in March 1964. In village tracts where village banks had not been formed, the Government's Administration Department advanced agricultural loans to the peasants. The compilation and maintenance of all agricultural loans accounts for the entire country was also undertaken by the State Agricultural Bank.

Under a centrally-planned economic system starting in 1963, the responsibility of granting agricultural loans to the village banks was taken over by the Agricultural Finance Division of the People's Bank. Village banks formed summed up to over 11 thousand with a membership of over 2 million. When the People's Bank was reorganised in 1976, the Agricultural Finance Division functions were taken over by the Myanma Agricultural Bank.

When Myanmar discarded the socialist system in favour of a market-oriented one, the reorganisation of the banking system saw the functions of the Myanma Agricultural Bank eventually assumed by the Myanma Agricultural and Rural Development Bank (MARDB). It may be pointed out that the MARDB could be classified as a financial institution and set up like other state banks under the Financial Institutions of Myanmar Law. But with a role of its own to play, it has been established under a separate law, the Myanma Agricultural and Rural Development Bank Law.

The aim of the MARDB is to provide banking services to effectively support the development of agricultural, livestock and rural socio-economic development enterprises in the economy. It provides loans to these enterprises, promotes rural banking and mobilises rural savings. In addition to providing various agricultural loans, it has expanded its activities to rural development involving the extension of loans for livestock breeding and socio-economic activities. This is the first time that a single institution has undertaken such a wide range of activities related to rural development. Its capital of K 1000 million is provided by the Government and the Central Bank is authorised to accommodate the MARDB if and when the need arises.

The MARDB's network of 14 regional branches, 163 township branches and 49 agency offices covers the entire country. In 1991/92 seasonal loans for 34 varieties of pre-monsoon, monsoon and winter crops amounting to K 1500 million were disbursed. Short-term and long-term loans have been given for purchase of farm implement, draft cattles, bullock carts, pump sets, power tillers, as well as for growing orchards and plantations.

Current lending rate by the MARDB to the village banks is 13 per cent while 5 per cent is added for on-lending to the members of village banks. Crop loans are issued without collateral but against group liability. For term-loans, borrowers pledge cattle, carts and machines bought with the loan proceeds. Loans to livestock breeders carry interest rates of 4 per cent for the first year, 6 per cent for the second, 7 1/2 per cent for the third and 10 per cent for the fourth year and thereafter. These borrowers are required to put up immovable property as collateral and produce two guarantors.

As a priority, the Government is trying to develop the border areas of the country, all of which are rural in every aspect. Under the programme to replace poppy growing in these areas with sugarcane and rubber and encourage orchard growing and plantation activities, the MARDB has issued subsidised loans from funds provided by the government, carrying a nominal interest rate of only 1 per cent. These Area Development Loans are mainly for growing orchards and plantation. This programme was started only a few years back and the financing facilities so provided will not amount to much, compared to the other loans.

The different kinds of loans granted by the MARDB for the last ten years with their recovery records may be seen under Table 1.11 and 1.12.

Table 1.11

MYANMA AGRICULTURAL AND RURAL DEVELOPMENT BANK AMOUNT OF LOANS MADE FOR THE PAST TEN YEARS

(Million Kyat)

Fiscal Year	Seasonal Loans	Short-Term Loans	Long-Term Loans	Area Development	Total
1983-84	1190.68	-	27.39	-	1218.07
1984-85	1218.70	-	24.32	-	1243.02
1985-86	1197.59	-	20.41	-	1218.00
1986-87	1309.09	-	25.04	-	1334.13
1987-88	1312.30	0.59	26.33	-	1339.22
1988-89	1286.74	-	30.09	-	1316.83
1989-90	1616.58	6.14	47.90	-	1670.62
1990-91	1524.42	14.08	94.91	8.44	1641.85
1991-92	1532.93	218.21	151.72	8.90	1911.76
1992-93	1758.74	482.02	210.03	12.27	2463.06
Total	13947.77	721.04	658.14	29.61	15356.56

Notes:

1. Seasonal loans are for production of 34 varieties of seasonal cross and repayable in 12 months.

2. Short term loans are made for 2 to 4 years. They are for purchase of farm implements and in recent years also include loans for salt production, livestock and fish breeding.

3. Long term loans are made for 5 to 6 years and repayable in yearly instalments. They are mainly for purchase of draft cattle, carts, waterpumps, powertillers, etc.

4. Area Development loans are given under the Government programme for the development of border areas and national races. A special fund is allotted for this purpose. It is disbursed mainly for growing orchards and plantations and carries a nominal interest of 1 per cent.

5. Loans made by MARDB to farmers for seasonal crop plantations, purchase of cattle, implement, etc., are under the joint liability and guarantee of the respective village banks for which village banks get 5 per cent margin off the 18 per cent currently paid by farmers members.

6. Livestock breeders must put up immovable property as collateral and must also produce 2 guarantors for a loan which is made directly to them. Interest rate is 4 per cent for the first year, 6 per cent for the second, 7 per cent for the third and 10 per cent for the fourth and above.

Source: Myanma Agricultural and Rural Development Bank.

Table 1.12

REPAYMENT FOR LOANS: 1983-93

(As at 31 March 1993)

(Million Kyat)

	Year of Lending	Seasonal Loans		Term Loans	
		Amount	Recovery (%)	Amount	Recovery (%)
1	1983-84	1190.68	99.58	27.39	100.00
2	1984-85	1218.70	99.41	24.32	100.00
3	1985-86	1197.59	99.75	20.41	100.00
4	1986-87	1309.09	99.36	25.04	100.00
5	1987-88	1312.30	99.70	26.92	99.94
6	1988-89	1286.74	99.89	29.45	97.12
7	1989-90	1616.58	100.00	43.98	96.92
8	1990-91	1524.42	100.00	69.11	96.01
9	1991-92	1532.93	99.87	63.16	95.44
10	1992-93	1758.74	91.19	39.92	73.56
	Total	13947.77	-	369.70	-

Source: Myanma Agricultural and Rural Development Bank.

It may be observed from Table 1.11 that the amount of loans shows a rising trend, with a marked increase in the period following Myanmar's transition to a market-oriented system. The MARDB plans to start rural banking and savings stations in selected villages to mobilise funds into voluntary savings deposit accounts and to offer emergency loans to farmers, farm labourers and the rural population in general.

There is an interesting aspect of rural development work being carried out by the various government departments, such as land reclamation, building of roads and bridges, health centres and schools where the state financing is supplemented by labour contribution from the people in the respective rural areas. A summary of the unusual aspect of cooperation between the state and the rural folks in striving to carry out rural development may be seen in Table 1.13.

Table 1.13

RURAL DEVELOPMENT WORKS

(Million Kyat)

	1972/73 to 1981/82		1982/83 to 1991/92		1992/93	
	State dev. fund	People's contribution	State dev. fund	People's contribution	State dev. fund	People's contribution
1. Agricultural and land reclamation	23.7	16.3	31.0	21.6	13.4	7.5
2. Roads and bridges	23.6	16.1	232.0	81.7	62.3	32.0
3. Village water supply	7.3	4.9	11.6	6.2	4.0	1.7
4. Health	2.6	1.7	5.0	4.0	2.9	2.1
5. Education	32.0	18.2	27.3	19.4	21.1	12.7
6. Miscellaneous social services	0.2	0.1	3.4	0.1	0.8	0.3
TOTAL	89.4	57.3	310.3	133.0	104.5	56.3

Source: The Union of Myanmar, *Review of the Financial, Economic and Social Conditions for 1993/94.*

Apart from the financing by the MARDB for rural development, state organisations, such as Myanmar Textile Enterprise, the Myanmar Foodstuff Enterprise and the Myanmar Jute Enterprise also extend finance in the form of advance payments for industrial crops. A summary of advance payments for industrial crops may be seen in Table 1.14.

Table 1.14

ADVANCE PAYMENTS FOR INDUSTRIAL CROPS

(Million Kyat)

	1989/90	1990/91	1991/92	1992/93
Jute	7.7	12.7	15.6	27.1
Sugarcane	12.7	23.0	72.9	81.4
Virginia tobacco	0.6	-	6.0	7.5
TOTAL	21.0	35.7	94.5	116.0

Source: The Union of Myanmar, *Review of the Financial, Economic and Social Conditions for 1993/94.*

V. Financial Facilities for Rural Development in Nepal

5.1 The Role of Agricultural Sector in the Economy

In Nepal, the agricultural sector contributes about 60 percent to GDP, provides employment to 90 percent of the labour force, and accounts for 80 percent of the country's export earnings. Agriculture is the backbone of the Nepalese economy. Without agricultural development, rural development is not possible. Thus, being a predominantly agricultural country, Nepal has directed its efforts towards promoting the development of the agricultural and the rural sector. In this respect, the government has taken various steps to raise agricultural production. Agricultural inputs, modern technology in agriculture, irrigation facilities and marketing agricultural products play a key role in rural development. Agricultural inputs are supplied at a subsidised price and government is encouraging the rural people to use modern technology and develop their skills in agriculture by providing training and other technical facilities.

Table 1.15

NEPAL: SECTORAL SHARE IN GDP AND EMPLOYMENT SHARE IN AGRICULTURE

(1978 constant prices; per cent)

	1976	1980	1985	1990	1991	Average 1976-1991
GDP growth rate	-	-2.3	6.1	3.6	4.0	3.9
Agricultural sector growth rate	-	-4.8	2.4	7.3	3.0	3.3
Manufacturing sector growth rate	-	-	-	-	-	-
Agricultural sector share in GDP	67.1	58.8	59.2	62.4	61.8	60.7
Manufacturing sector share in GDP	-	-	-	-	-	-
Employment share in agri.	90.9	90.3	91.0	90.1	-	90.4

Source: *Key Indicators Developing Asian and Pacific Countries,* ADB, various issues.

Bank finance for agriculture which was only Rs. 165.6 million in 1980/81 expanded to Rs. 2689.7 million by 1989/90. For the comparable period, bank finance for agricultural exports as a share of total export earnings rose from 10.3 percent to 63.5 percent. Central government expenditure for agriculture was 16.2 percent of total expenditure in 1980, but this rose to as high as 23.2 percent by 1986 and eventually levelled at 14.7 percent in 1991. The share of Nepal's central government expenditure for the agricultural sector in total expenditure is one of the highest among the SEACEN countries.

5.2 Institutional Financing for Rural Development

In Nepal, the four main sources of institutional credit for the agricultural sector are as follows:

(1) Nepal Rastra Bank,

(2) Agricultural Development Bank (ADB),

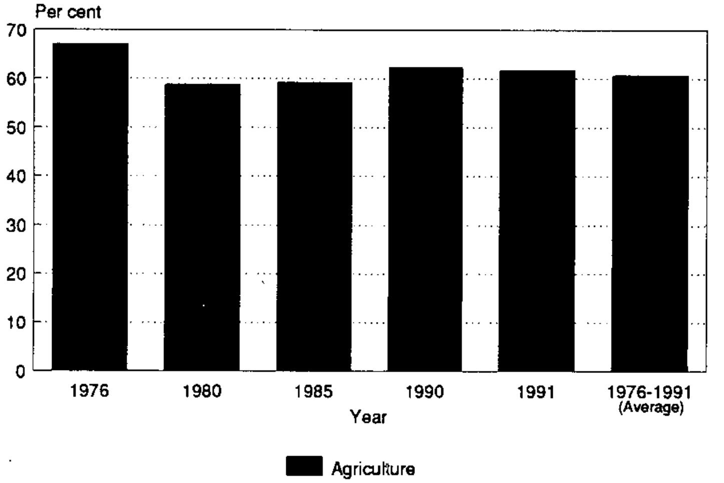
(3) Commercial Banks, and

(4) Cooperatives and Sajha Institutions.

In addition to the above main sources of formal agricultural credit, there are other sources such as the international agencies and the Production Credit for Rural Women. Despite these sources of formal

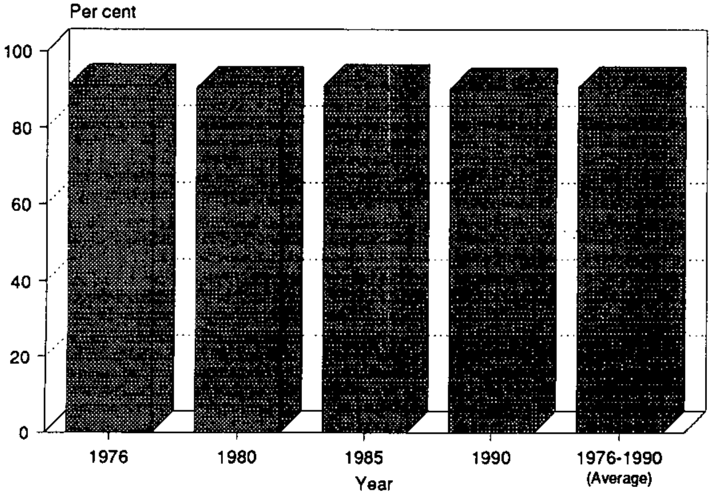
Nepal

CH 1.5a: SECTORAL SHARE IN GDP
(1974/75 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

CH.1.5b:EMPLOYMENT SHARE IN AGRICULTURE
(1974/75 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

agricultural credit, it is the informal sources that supply most of the rural sector's needs, estimated at some 76 percent[5] of the total agricultural credit.

Nepal Rastra Bank does not directly extend loans for rural development but participates indirectly by providing share capital to the Agricultural Development Bank established in (1967), the Agricultural Projects Services Centre (1974), and the Credit Guarantee Corporation (Pvt) Ltd (1974). It refinances the ADB and the commercial banks for their agricultural loans. As the country's Central Bank, Nepal Rastra Bank issues policy directives as guidelines for commercial banks.

The ADB plays a major role in supplying formal agricultural finance. Most of the short-term loans are disbursed through grassroot-level organisations. Medium- and long-term loans are given directly to individuals. The ADB channels its credit through regular programmes and also through the Small Farms Development Programme (SFDP), while the commercial banks do so through the Intensive Banking Programme (IBP). Both the SFDP and IBP focus mainly on small farmers, providing credit for agriculture, cottage industries and services sectors.

The SFDP programme was introduced by ADB in 1975 to improve the living standard of small farmers, marginal and landless labourers, through multiplicative approach. It identifies the area and target group and eligible farmers are encouraged to form their own groups. Individual farmers are provided loans to undertake various projects on the group-guarantee basis. A family whose per capita income is below U.S. dollars 43 is eligible to take part in this programme.

The ADB has large exposure in extending loan assistance. Its total loans which were a mere Rs. 134.1 million in 1980/81, increased to Rs. 1163.3 million by 1989/90. The share of the ADB loans in the total loans to the agricultural sector accounted for as much as 80 percent in 1980, but was reduced to 43 percent in 1990. The short-term loans issued by ADB which amounted to 61 percent of the total loans in 1980, also came down to 47.2 percent in 1990, while its medium-term

---

5. *Ibid.*, p. 860

loans which accounted for 31 percent in 1980 rose to 47.3 percent in 1990, while the amount issued for long-term loans fell from 8.7 percent to 5.5 percent in the same period.

Table 1.16

BANK FINANCE IN AGRICULTURE

(Million Rupee)

	Total Bank Finance	ADB Finance	ADB Finance by Terms of Credit		
			Short-term %	Medium-term %	Long-term %
1980/81	165.6	134.1	60.9	30.5	8.7
1981/82	314.0	256.4	67.4	28.6	4.0
1982/83	420.3	345.8	52.7	43.1	4.2
1983/84	594.1	474.3	56.2	41.4	2.4
1984/85	729.4	583.8	43.6	53.2	3.2
1985/86	812.7	663.8	42.9	52.1	5.0
1986/87	764.0	610.8	45.2	51.4	3.5
1987/88	1407.2	854.0	46.4	48.9	4.6
1988/89	2174.8	1017.0	44.4	52.0	3.6
1989/90	2689.7	1172.5	47.2	47.3	5.5

Source: Nepal Rastra Bank.

Commercial banks are under obligation to issue loans to the agricultural sector in accordance with the directive from the Nepal Rastra Bank requiring them to lend 12 percent of their total loans to priority sectors, which include agriculture. As a result of this directive, agricultural loans issued by the commercial banks which amounted to only Rs. 31.5 million had gradually increased, and for the last two years, i.e., 1989 and 1990, the amounts of these loans had exceeded those issued by the ADB. It may be of interest to note that the bulk of the source of funds for ADB comes from foreign borrowing which was about one-third of its loanable funds, whereas deposits constituted the major source of funds for the commercial banks.

Cooperatives are useful institutions for channelling agricultural loans to the farmers in Nepal. The conventional cooperative movement has been remodelled by the launching of the Sajha programme. This programme involves a broad spectrum of activities such as the supply of credit and inputs, marketing of agricultural produce and consumer goods and mobilising of rural savings. The Sajha institutions, designed towards the upliftment of the small farmers, are authorised as the sole dealer of the Agricultural Inputs Corporation and various other public sector agencies. Sajha is also assisted by the Department of Agricultural through its extension workers.

Production Credit for Rural Women (PCRW) is a UNICEF - financed programme launched in 1982 which is aimed at providing training for income-generating activities like weaving, handicraft, knitting and agricultural activities for rural women. International agencies are also an important source of finance for rural development. Various agencies such as IFAD, UNICEF, UNFPA, DEP and CARE carry out activities in the area of social welfare, training, childcare, drinking water supply, and sanitation. These activities help to improve the social and economic status of small farmers. The Asian Development Bank also assists by providing funds to the Agricultural Development Bank of Nepal. In early 1988, the Government set up a livestock insurance facilities through a guarantee corporation aimed at reducing the risk factor in livestock activities.

Nepal Rastra Bank also established a Credit Guarantee Corporation in 1974 to offer guarantees on commercial banks lending to agriculture and other small-scale enterprises. The guarantee refinances 60 to 80 percent of unrecovered loans.

Table 1.17

FOREIGN LOANS AND GRANTS FOR RURAL DEVELOPMENT

(Million US Dollar)

Description	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Education	5.9	11.7	8.5	5.8	9.2	7.8	7.7	9.8	6.4	2.9
Health	5.7	8.1	6.1	8	6.5	6.8	5.9	10.5	4.5	2.5
Drinking Water	3.7	8.1	4.8	3.2	6.8	7.8	3.3	4.3	8.3	4.3
Local Development	10.3	14.7	7.1	7.7	5.3	4.5	5.3	6.2	35.1	6.1
Agriculture	13.9	16.3	19.3	26.4	29.7	16	23.5	19.3	18.4	14.3
Irrigation	15.3	18.6	20.7	25.5	27.4	23.6	20.3	28.9	26.5	30.2
Forest	5.4	6.5	6.2	7.7	4.4	7.7	8.8	5.3	6.2	4.9
Total	60.2	84	72.7	84.3	89.3	74.2	74.8	84.3	105.4	65.2

Source: Replies to the SEACEN Financial Facilities for Rural Development Project Survey Questionnaire.

VI. Financial Facilities for Rural Development in the Philippines

6.1 The Role of Agricultural Sector in the Economy

The agricultural sector remains an important sector in the Philippines as may be gathered from the fact that it accounted for an average of 23.5 percent of GDP, 49.3 percent of the labour force in 1976-90.

Table 1.18

PHILIPPINES: SECTORAL SHARE IN GDP AND EMPLOYMENT SHARE IN AGRICULTURE

(1985 Constant prices; per cent)

	1976	1980	1985	1990	1991	Average 1976-1990
GDP growth rate	-	5.2	-7.3	2.4	-1	2.6
Agricultural sector growth rate	-	4.1	-1.8	0.4	0.7	2.3
Manufacturing sector growth rate	-	4.2	-7.9	2	-0.9	2.3
Agricultural sector share in GDP	23.7	23.5	24.6	22.5	22.8	23.5
Manufacturing sector share in GDP	26.5	27.6	25.2	25.4	25.5	26.2
Employment share in agri.	53.8	51.4	49.0	45.2	45.3	49.3

Source: *Key Indicators of Developing Asian and Pacific Countries,* ADB, various issues.

Two-thirds of the population are in the rural areas. Thus, with the population predominantly rural, the agricultural sector exists as an important sector in the economy and with small- scale farming accounting for about 50 percent of the people's occupation in agriculture, the government endeavors to accelerate the pace of development and bring the rural sector into the mainstream of socio-economic progress.

The Philippines has a national banking programme for rural development. This programme, under CB Circular No. 1367 dated 26 November 1992, aims to strengthen the rural banking system and affords rural banks ample opportunity to provide greater banking services to the rural sector. The Countryside Financial Institutions Enhancement Programme aims to raise the capital base of countryside financial institutions by encouraging existing and new investors to infuse fresh equity into these institutions and thereby accelerate the government's economic efforts, reduce the debt burden of such eligible institutions and the corresponding financial strain on the government.

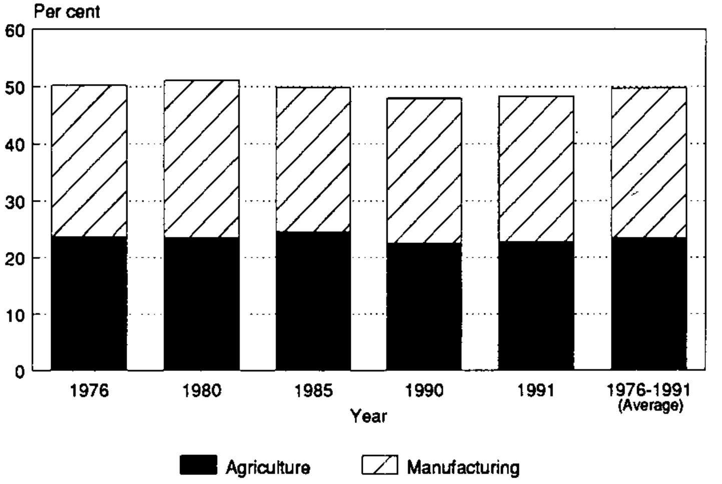
6.2 Institutional Financing for Rural Development

On hindsight, one can see two stages in the history of the Philippines' rural finance: (a) the years of expansionary credit under a regime of controlled interest rates and (b) the period of reforms toward financial liberalisation.

The first stage was characterised by the creation of new financial institutions under government control and generous provision of subsidised loans. From the 1950's onwards, legislative measures were passed to create new institutions as a way of expanding access to institutional credit in the rural areas. These institutions included small-unit rural banks which catered to small farmers; the Agricultural Credit Administration (ACA) which channelled government loan funds through a sub-structure consisting of multi-purpose cooperatives; the Land Bank of the Philippines which served the financial requirements of agrarian reform beneficiaries; and the United Coconut Planters Bank (UCPB) and the United Planters Bank (UPB) which catered to the needs of coconut farmers and sugar planters respectively. In addition to these institutions, the government supported the cooperatives movement through Presidential Decree No. 175 which created a complex, multi-layered structure of cooperatives from the village level cooperative to the Cooperative Union of the Philippines (CUP), the apex organisation of the entire cooperative system.

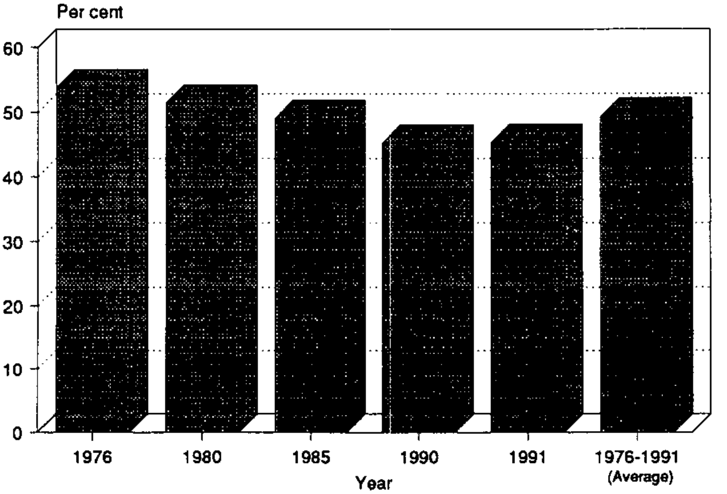
Philippines

CH 1.6a: SECTORAL SHARE IN GDP
(1985 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

CH 1.6b: EMPLOYMENT SHARE IN AGRICULTURE
(1985 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

Except for the cooperatives, these institutions formed part of an organised formal financial sector which as of September 1990 consisted of 751 private commercial banks (34 percent of the total), 223 government banks (11 percent), 387 thrift banks (18 percent), and 873 rural banks (37 percent). A large proportion of agricultural credit requirements in the Philippines, however, was and is today financed by the informal sector. In the Philippines, the cooperatives are considered part of the informal sector since their financial operations are not regulated by the Central Bank. With the extensive reach in rural areas and by providing other farm services apart from the credit (e.g. input and output marketing), these informal lenders seem to dominate the rural finance sector.

Table 1.19

SOURCES OF CREDIT, SUB-PERIOD AVERAGE FROM SELECTED SURVEY, 1967-1986

	Credit Source (%)	
	Formal	Informal
1967-74	37.1	62.9
1976-80	14.4	85.6
1981-86	23.0 1/	70.7 1/

Source: Replies to The SEACEN Financial Facilities for Rural Development Project Survey Questionnaire.

To complement the rapid build-up of these institutions, several interventions were employed to increase the supply of credit to agriculture. These included the rediscounting policy of the Central Bank, budgetary allocation and foreign borrowing and regulatory schemes for banks to channel loan to agriculture:

(1) The rediscounting policy of the Central Bank. Rural banks were allowed to borrow up to four times their net worth and three times the average of their savings and time deposits to expand their lending capability. Rural banks sourced up to

more than 50 percent of their loanable funds from the Central Bank. The rediscounting window of the Central Bank, therefore, became a source of first rather than last resort for funds by the rural banks.

(2) The provision of more funds through budgetary allocations and foreign borrowings which supported government initiated programmes. It was intended that such programmes would provide small farmers with easier access to formal sources of credit at concessional or subsidised rates. Several studies show that this strategy was a failure, as the funds reached only a minimal proportion of the country's small farmers and failed to sustain credit support on a long term basis[6].

(3) Regulatory schemes imposed on banks to force allocation of credit sources to agriculture. To further ensure the flow of credit to the rural sector, credit quotas and deposit retention schemes were imposed on banks. All banks were required to allocate 25 percent of loan able funds for agricultural credit and the Deposit Retention Scheme required banks to retain 75 percent of their deposits in the region where they were generated. These measures were adopted to check the outflow of funds from the rural areas.

Unfortunately, however, the above policies failed to provide the desired results. Consequently, the government saw the need to liberalise the entire financial system by placing greater reliance on the market mechanism in the allocation of financial resources. Interest rates were deregulated in November 1985, and the Central Bank subsidised rediscounting facility was discontinued. In December, 1986, the government consolidated 20 of the 46 separate credit programmes into the Comprehensive Agricultural Loan Fund (CALF). As subsidies were withdrawn, the government refrained from direct farm financing and advocated that only banks or financial institutions deliver rural credit at market-determined interest rates. Loan guarantees and crop insurance were intensively promoted by operating the CALF as a

6. Agricultural Credit Policy Council, "Rural Finance Development Plan: Agenda for Action CY 1992-1995", June 1991, p. 12.

guarantee fund to minimise risks in agricultural lending and lessen monitoring costs. A component of CALF is also currently utilised as a liquidity fund to support innovative credit schemes / projects of the government with potentials at improving credit delivery to the disadvantaged segments of the rural sector.

As part of the liberalisation of the entire financial system, the Philippine government embarked on a comprehensive rural finance strategy which aims at greater reliance on the market mechanism in the allocation of resources, increased private sector participation, and termination of the direct lending programmes of non-financial government institutions. This strategy has been coordinated by the Agricultural Credit Policy Council (ACPC) which derives its guidance from the targets and priorities of the Department of Agriculture (DA) as embodied in the Agricultural Development Plan.

Under the scheme, the Land Bank of the Philippines (LBP) serves as the main wholesaler of funds for agricultural lending to rural banks, farmers' cooperatives and private development banks. These banks are responsible for retail lending. Rural banks together with cooperatives and peoples' organisations are the major retailers of credit for the rural sector. The Central Bank of the Philippines (CBP) regulates and supervises the operations of banks, and coordinates with the ACPC in the formulation and promotion of banking policies that will ensure the efficiency of the rural financial market. Guarantee institutions are to continue providing cover for the agricultural loans granted by banks. Whenever necessary, the fund coverage of these institutions are to be expanded. The Cooperative Development Authority (CDA) accredits and develops farmer / fisherman-based cooperatives and establishes the criteria for identifying strong and viable cooperatives in rural areas. Financially sound and viable non-governmental organisations with experience in lending may be used as credit conduits in areas unserved by banks.

Farmer and fishermen organisations have been mobilised to act as conduits for group lending. Assistance is provided by agencies concerned to link these organisations with the financial system. Farmers and fisher folk participate in the formulation of agricultural credit policies. With the envisioned goal of making the small farmer creditworthy and bankable, the government facilitates farmers' access to, and control over, agricultural finance. In this regard, assistance is extended to those organisations ready and willing to transform themselves into banks.

The liberalising efforts outlined thus are recognised to be non-automatic in guaranteeing the provision for access of small farmers to the resources of the rural financial institutions. As such, the Philippine government continues to promote and encourage innovations to improve such access.

Thus, in May 1990, the Agricultural Credit Policy Council launched the Development Assistance Programme for Cooperatives and People's Organisation (DAPCOPO) programme which aims to bring the small farmers, cooperatives and similar organisations into the mainstream of the financial system in the short run. The DAPCOPO provides funds that serve as a critical mass of credit flows to small farmers. Where banking facilities are either absent or inadequate, the provision of funds demonstrates the capacity of the small farmers to handle credit in a responsible way and build up a record that banks in general value.

The rural financial institutions have also come up with innovations of their own. There is the Liquidity Pool Agreement signed in April 1989 by the Davao Federation of Rural Banks, Land Bank of the Philippines and the Philippines Deposit Insurance Corporation in South Philippines. This Liquidity Pool scheme serves as a bail-out system for the rural bank members of the Federation and helps to avert situations that may lead to client/depositor loss of confidence. The viability and liquidity of this Pool are supported by both the Land Bank and the Philippine Deposit Insurance Corporation through the extension of a credit line to the Federation.

Another innovation is the promotion of linkage between self-help groups (SHG) and banks. This project is aimed at improving the access of small farmers and the rural sector in general to banking services. This project is also aimed at enabling the rural poor to organise themselves into self-help groups to have access to the Land Bank of the Philippines banking services.

Agricultural loans extended by the financial institutions for the period 1980-89 may be seen in the following table.

It will be observed that there has been a rising trend in total institutional agricultural loans during the period referred in the table, with a sudden drop in 1989, due to the decline of loans from the private financial institutions. As far as the Government banks were

Table 1.20

AGRICULTURAL PRODUCTION LOANS GRANTED BY INSTITUTIONS, 1980-1989

(Million Peso at Current Prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Government Banks	3703.6	3410.6	4467.7	3555.3	2030.2	1377.8	579.0	1485.8	3492.5	5838.9
	(17.7)	(13.4)	(16.3)	(12.6)	(7.5)	(5.1)	(2.3)	(5.4)	(9.9)	(18.7)
Phil. National Bank	3093.3	2605.4	3642.8	3267.8	1946.8	1315.7	574.8	702.4	2631.4	3394.6
	(14.77)	(10.27)	(13.33)	(11.55)	(7.19)	(4.87)	(2.29)	(2.56)	(7.46)	(10.88)
Dev't. Bank of the Phi.	538.7	674.7	603.6	79.7	83.4	62.1	4.2	131.2	458.7	210.6
	(2.57)	(2.66)	(2.21)	(0.28)	(0.31)	(0.23)	(0.02)	(0.48)	(1.30)	(0.67)
Land Bank of the Phil.	71.6	130.5	221.3	207.8	-	-	-	652.2	402.4	2233.7
	(0.34)	(0.51)	(0.81)	(0.73)	-	-	-	(2.38)	(1.14)	(7.16)
Private Financial Institutions	17242.8	21966.0	22865.0	24725.8	25039.9	25624.3	24535.4	25974.2	31797.5	25367.0
	(82.3)	(86.6)	(83.7)	(87.4)	(92.5)	(94.9)	(97.7)	(94.6)	(90.1)	(81.3)
Commercial Banks	13342.6	17430.9	17433.5	18915.8	21330.1	22479.7	20008.8	21007.1	23777.0	18558.5
	(63.7)	(68.69)	(63.78)	(66.88)	(78.80)	(83.25)	(79.67)	(76.50)	(67.38)	(59.47)
Saving and Mortgage Banks	170.9	215.0	407.3	90.4	15.2	12.9	97.1	90.2	201.6	355.9
	(0.82)	(0.85)	(1.49)	(0.32)	(0.06)	(0.05)	(0.39)	(0.33)	(0.57)	(1.14)
Development Banks	96.0	116.0	182.9	330.3	330.9	352.3	858.1	1013.4	1190.3	1481.1
	(0.46)	(0.46)	(0.67)	(1.17)	(1.22)	(1.30)	(3.42)	(3.69)	(3.37)	(4.75)
Rural Banks	3257.3	3729.9	4307.0	4610.3	3361.8	2778.9	2948.1	3456.4	3854.8	4402.7
	(15.55)	(14.70)	(15.76)	(16.30)	(12.42)	(10.29)	(11.74)	(12.59)	(10.92)	(14.11)
Stock Savings & Loans Associations	376.0	474.2	534.3	779.0	1.9	0.5	623.3	407.1	2773.8	568.8
	(1.80)	(1.87)	(1.95)	(2.75)	(0.01)	(-)	(2.48)	(1.48)	(7.86)	(1.82)
Total	20946.4	25376.6	27332.7	28281.1	27070.1	27002.1	25114.4	27460.0	35290.0	31205.9
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Note: Figures in parentheses represent the percentage share in the total loans.

Source: ACPC Year-End Credit Report.

concerned, their total loans dipped from 1983 to 1986, recovered in 1987 and reached an all time high in 1989. The lending by the government banks is dominated by the Philippine National Bank and the Land Bank of the Philippines. The share of private financial institutions in loans extended for agriculture overwhelms that of the government banks. On the average, the amount of loans issued by the government banks. On the average, the amount of loans issued by the private financial institutions for the ten-year period was eight times the amount extended by the government banks. Loans by the private financial institutions are dominated by commercial banks whose share on average was over 60 percent of the total loans extended.

The Philippines has received considerable financial facilities from external sources for its agricultural and rural development. Some of the major projects funded by foreign institutions may be seen in Table 1.21.

Table 1.21

PROGRAMMES WITH FOREIGN FUNDING *

(1982-1992)

Foreign Source	Year Obtained	Program	Amount (US$)
IBRD/USAID	1985	Agricultural Loan Fund (ALF)	120 M
IBRD	1992	Countryside Loan Fund (CLF)	150 M
OECF of Japan	1983	Agro-Industrial Technology Transfer Program (AITTP)	34.3 M
ADB	1984	Northern Palawan Fisheries Development Project	6.48 M
ADB	1990	Fisheries Sector Program	28.5 M
Japan	1988	Multi-Livestock Dispersal Program	P 25 M
	1990	- do -	P 38.5 M
ADB	1984	First Aquatic Devt. Proj.	9.7 M
WB	1982	National Fisheries Devt. Proj.	12.1 M
ADB	1981	Palawan Integrated Area Development Proj. (PIADP)	3.0 M
EEC	1988	Central Cordillera Agri. Program (CECAP)	18.5 M
ADB/IFAD	1987	Highland Agricultural Devt. Program (HADPI)	23.4 M
EEC	1990	Southern Mindanao Agri. Program (SMAP)	16.5 M
ADB	1991	Second Palawan Integrated Area Devt. Proj. (SPIADP)-PIDP Phase II	58.0 M
EEC	1992	Earthquake Rehabilitation Program (ERP)	20.0 M

* These are the major ones monitored by ACPC.

Source: ACPC Monitoring Division.

VII. Financial Facilities for Rural Development in Sri Lanka

7.1 The Role of Agricultural Sector in the Economy

In Sri Lanka, agriculture contributed 25.1 percent average share into GDP, while 47.7 percent of the people were employed in the agricultural sector in 1990. About 75 percent of Sri Lanka's population continues to be rural-based.

Table 1.22

SRI LANKA: SECTORAL SHARE IN GDP AND EMPLOYMENT SHARE IN AGRICULTURE

(1975 Constant prices; per cent)

	1976	1980	1985	1990	1991	Average 1976-1990
GDP growth rate	-	5.7	5.0	6.2	-	4.7
Agricultural sector growth rate	-	1.6	9.3	8.8	-	2.7
Manufacturing sector growth rate	-	0.4	6.2	9.3	-	3.8
Agricultural sector share in GDP	27.9	26.5	24.6	21.4	-	25.1
Manufacturing sector share in GDP	23.4	20.0	19.5	20.9	-	20.3
Employment share in agri.	-	-	49.3	47.7	-	-

Source: *Key Indicators of Developing Asian and Pacific Countries,* ADB, various issues.

Successive governments have made concerted efforts to develop the rural economy with various measures and one of the important measures was the provision of institutional credit to assist the farmers.

7.2 Institutional Financing for Rural Development

As in most less developed countries, the informal sector is an important source of rural credit. According to a Credit Survey by the Central Bank of Sri Lanka in 1976, this sector supplied 45 percent of rural credit[7]. As far as institutional rural credit is concerned, the main

7. Rasaputram Warnasena., "Role of Banks in Rural Economic Development in Sri Lanka", p. 2, September 1982.

suppliers are the Central Bank of Sri Lanka, the Bank of Ceylon, and the People's Bank. Private banks like Hatton National Bank Ltd. and the Commercial Bank of Ceylon Ltd. entered the field of rural lending in 1985. Foreign lines of credit for agricultural activities are also funded by international organisations such as the World Bank, Asian Development Bank and the IDA with the Central Bank serving as the executing agency. In 1981, the Rural Credit Advisory Board was set up with the responsibility for formulating national policy guidelines on rural credit and coordinating the rural credit functions of existing credit institutions. In early 1980, the Central Bank created the Rural Credit Department within the Bank to administer concessionary refinancing schemes, implement the new Comprehensive Rural Credit Schemes and other credit schemes and oversee other credit guarantee schemes relating to agricultural loans.

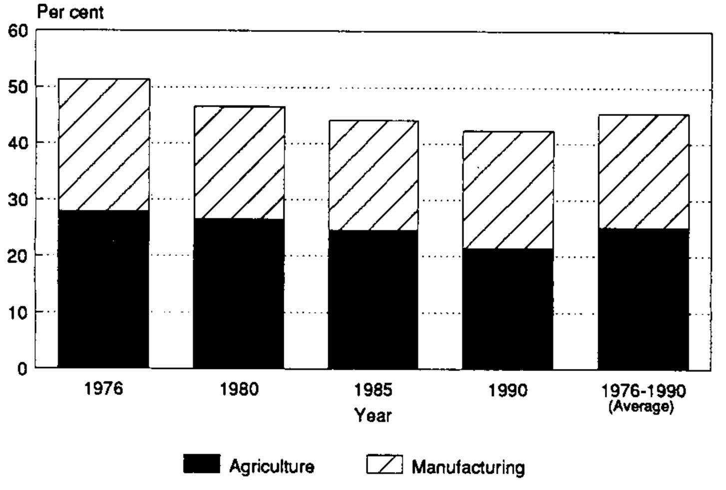
To provide banking facilities to the hitherto unbanked segments of the population, the Central Bank also set up Regional Rural Development Banks (RRDB). These banks play an important role in promoting rural economic development through self-employment and village-adoption schemes. These rural banks build up a sound rural credit structure by supplementing the activities of existing banks and adopt innovative approaches to rural lending. The Central Bank also provides refinancing to the banks with respect to loans rescheduled on account of natural calamities through a system of "roll-over-facility".

The People's Bank, funded by the government, was established in 1961 with the objective of developing the cooperatives, rural banking and agricultural credit. The capital for the People's Bank was subscribed by the government and the cooperatives. Under the Comprehensive Rural Credit Scheme of 1973, the People's Bank, Cooperative Rural Banks, and the Bank of Ceylon served as the main credit delivery agencies. Cooperative Rural Banks as credit agents for the People's Bank in the rural areas on-lent to their members and were responsible for the recovery of loans.

As a result of the high default rates on rural credit extended under the supervision of the People's Bank, the Bank of Ceylon (BOC) was called upon in 1973 to lend directly to farmers in the rural areas by setting up rural branches in the agrarian centres set up by the State. The main objective of this programme was to take banking services to the doorsteps of the farmers and also provide a package of facilities

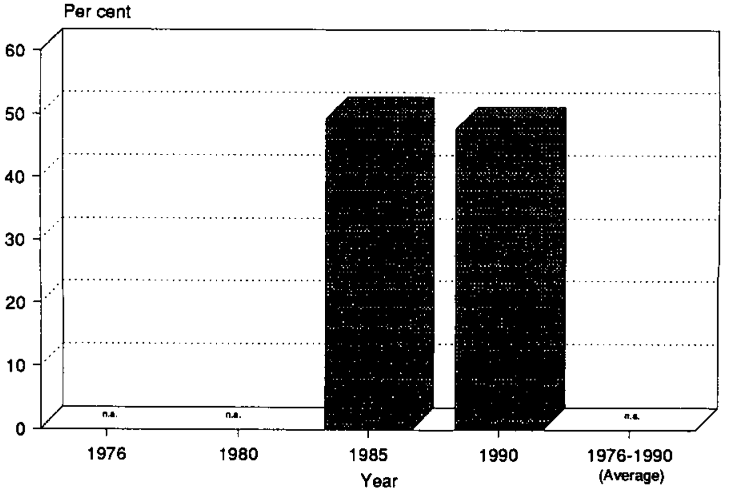
Sri Lanka

CH 1.7a: SECTORAL SHARE IN GDP
(1975 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

CH 1.7b: EMPLOYMENT SHARE IN AGRICULTURE
(1975 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

including the provision of farm inputs, such as seeds and fertilizers, extension services, insurance, etc. under one roof. The entry of the Bank of Ceylon into the rural credit market under the Comprehensive Rural Credit Scheme saw large amounts of cultivation loans being disbursed without any sign of appreciable improvement in the recovery of loans. This eventually led the Central Bank to initiate the setting up of RRDBs. The People's Bank, the Bank of Ceylon and the RRDBs remained the greatest primary sources of institutional rural credit.

As part of the arrangement to further expand financial facilities to the rural sector as well as an integral part of the Government's Poverty Alleviation Programme, both the People's Bank and the Bank of Ceylon adopted new strategies such as the group-lending approach. Among those worth mentioning is the Praia Naya Niyamake (PNN) Scheme which was intended to provide credit to small borrowers on easy terms and extend such services to areas which are inaccessible to formal institutions. The PNN Scheme provides facilities to financial wholesalers to borrow from the bank and retail informally. The PNN was to be a link between formal and informal money markets. Another scheme is the Athamaru Loan Scheme which provides credit to small-scale traders, vegetable vendors and peasants. A guarantee of two members in the group is sufficient to borrow under this scheme. Another group lending scheme is the Game Searing Loan Scheme which provides for the small and marginal land-owning peasants, landless labourers, refugees, widows and the handicapped with no economic base. A guarantee of two members is also sufficient to borrow under this scheme. Another Poverty Alleviation Programmes known as the Janasaviya Programme focuses on people-based production by setting-up small production units at village level. Under the programme, a sum of Rs. 1,458 per month is provided for consumption for a period of two years. These families are encouraged to take up self employment activities at the end of the two year period.

The Bank of Ceylon also undertook group lending with short-term refinancing arrangements with the Central Bank of Sri Lanka. In one scheme, suppliers of inputs were paid by official bank cheque from the farmer's individual loan account. The guarantee was obtained as security for the loan from each member of the group. Another interesting example of group lending may be found in the special credit scheme which was formulated by the Bank of Ceylon in 1985, in collaboration with the Women's Bureau of Sri Lanka with financial assistance from the FAO. The credit facility was intended for disadvantaged rural estate women to allow them to embark on income-generating group activities. The security for the loans depended on the economic and physical status of the applicants. The salaried women were required to offer "guarantee inter-se" as security, whilst in the case of unemployed, the security was the fixed deposit kept by the Women's Bureau with the Bank.

The Bank of Ceylon also provides funds to the Thrift and Credit Cooperative Societies (TCCS) and the primary cooperatives to on-lend to their members. The 25-percent of the total loan sought is required to be deposited at the Bank as fixed deposit as part of the collateral for the loan. Another instance of the Bank of Ceylon's lending through cooperatives may be found in the credit schemes for dairy development and livestock development. In the former, the loans are granted to the cooperatives for on-lending to their members; in the latter, however, loans are provided directly to the cooperatives members. Another recent programme of the Bank of Ceylon for cooperatives that should be noted is the credit scheme to assist members at the grassroots level such as the Fisheries Cooperative Programme. The scheme was launched to enable them to pursue self-employment.

To encourage commercial banks to lend to the agricultural sector with so much risk, the Central Bank of Sri Lanka has guaranteed 75 percent of the defaults beginning 1978 for all lending under the new agricultural credit scheme and the comprehensive credit scheme, where banks are required to pay a premium of one-half percent of the capital lent as an insurance fee. The Agricultural Insurance Scheme was introduced in Sri Lanka in 1958/59 on an experimental basis for paddy and was later extended to cover other crops. In 1973, agricultural insurance was made compulsory. The scheme is administered by the Agricultural Insurance Board (AIB) which was established in 1974. The objectives of the scheme are to provide a measure of financial support to farmers in the event of crop failure due to natural calamities, restore credit eligibility to the farmers in the face of a crop failure and stimulate the production of food. The scheme operates through credit institutions.

As a consequence of the progress being made by the RRDBs, commercial banks had been under pressure to respond in a similar way. Thus, some commercial banks have embarked on an arrangement whereby credit is extended by them to approved private individuals and merchants acting as lending agents for on-lending to their final customers. This approach attempts to integrate informal and formal lenders in the rural financial markets, recognising that a local agent has better knowledge and experience of the individual borrowers compared to the formal lenders. The Commercial Bank of Ceylon, another private bank, identifies the rural poor with self-employment capabilities and unemployed youth to start micro-production units and provides them with the capital funds. The newly-established Seylan Bank has initiated several loan schemes to accommodate self-employment projects in the rural areas. Recently, the Bank has also strengthened and expanded this scheme by establishing mobile banking services in out-station areas.

VIII. Financial Facilities for Rural Development in the Republic of China (ROC)

8.1 The Role of Agricultural Sector in the Economy

In the 1950's, agriculture accounted for more than one-third of the Republic of China total production, more than half of its employment and two-thirds of its exports. With this strong agricultural base, ROC managed to develop a strong industrial sector whose production eventually overtook that of the agricultural sector. Thus, agriculture now accounts for less than 5 percent of ROC's GDP and the share of employment in the agricultural sector fell from 28.9 per cent in 1976 to 12.9 per cent in 1991.

Table 1.23

REPUBLIC OF CHINA: SECTORAL SHARE IN GDP AND EMPLOYMENT SHARE IN AGRICULTURE

(1986 Constant prices; per cent)

	1976	1980	1985	1990	1991	Average 1976-1990
GDP growth rate	13.9	7.3	4.9	4.9	7.3	8.5
Agricultural sector growth rate	8.1	-1.5	2.6	1.0	0.2	1.1
Manufacturing sector growth rate	22.3	10.5	3.7	-0.2	6.4	8.6
Agricultural sector share in GDP	11.4	7.9	6.2	4.3	4.0	6.9
Manufacturing sector share in GDP	34.1	36.3	38.2	35.3	35.0	36.8
Employment share in agri.	28.9	19.5	17.5	12.8	12.9	18.6

Source: *Key Indicators of Developing Asian and Pacific Countries,* ADB, various issues.

Yet, despite the decline in the share of agriculture in the GDP, the government of ROC continues to support the agricultural sector. The assistance to agriculture may be seen in the latest move by the government at launching the "Comprehensive Programme for Agricultural Adjustments" in 1991. This programme was designed to improve the quality and the structure of agricultural production rather than the quantity. For 1991-1996, the programme plans simply to sustain the agricultural production at existing levels. Adjustments are to be made in three directions. First, increase the productivity of farm labour and land, moving towards higher-value products and lowering the production and marketing costs to meet international competition. Second, provide more social benefits to the farmers, thus improving their quality of life and narrowing the economic gap between the urban and rural areas. And third, conserve natural resources, maintaining agricultural development and the environment, and developing more farms for recreational purposes.

8.2 Institutional Financing for Rural Development

Agricultural credit is one of the inputs which has contributed significantly to agricultural and rural development in ROC. The Agricultural Planning and Coordination Committee of The Central Bank of China is Taipei's highest policy-making organisation for agricultural credit. It offers agricultural financing and operates a trust fund. Founded in 1970, the purpose of the Committee is to ensure sound management of agricultural finance. It sets the policy for agricultural credit and reviews interest rates. Institutional credit for agriculture is provided by agricultural banks, the government and its business organisations, while non-institutional or informal agricultural credit is made available by private lenders.

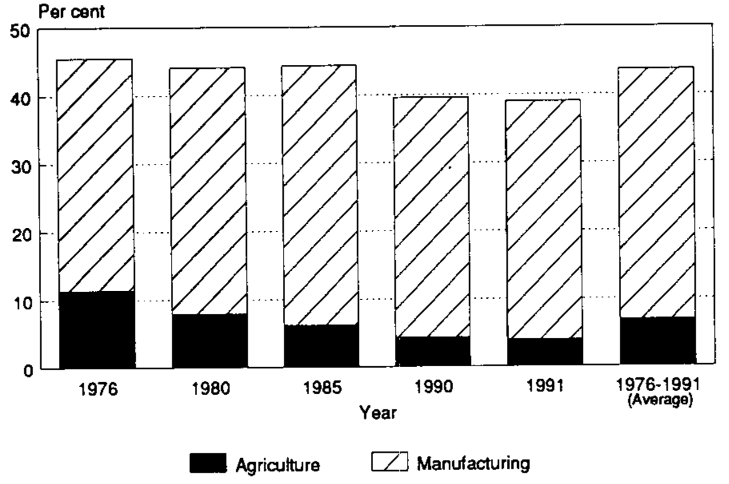
Agricultural banks account for 95 percent of the total agricultural loans in Taipei. They consist of:

(1) The Farmer's Bank of China,
(2) The Land Bank of Taiwan,
(3) The Cooperative Board of Taiwan, and
(4) Farmer's and Fishermen's Associations Credit Unions.

(1) The Farmer's Bank of China is a state-owned bank whose primary objectives are to provide funding for agricultural

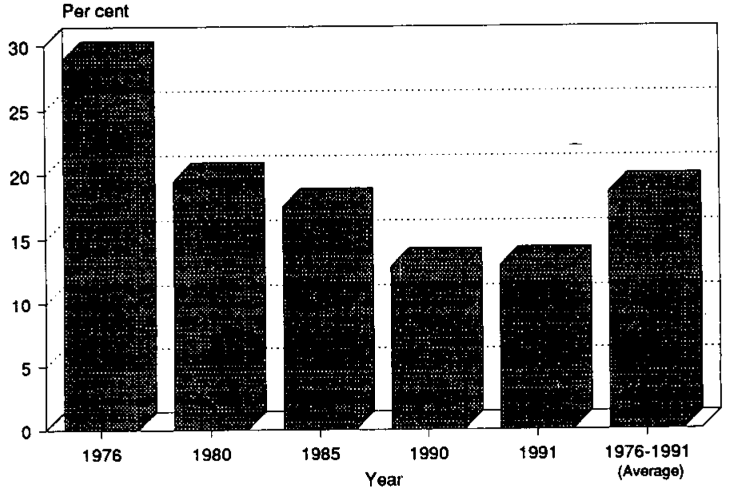
Republic of China, Taipei

CH 1.8a: SECTORAL SHARE IN GDP
(1986 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

CH 1.8b: EMPLOYMENT SHARE IN AGRICULTURE
(1986 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

production, processing, marketing, and related businesses. It also provides loans to promote rural economic development so as to improve farmers' income and living conditions. The law requires that 60 percent of the Bank's loans are for agricultural purposes.

(2) The Land Bank of Taiwan is a provincial bank which coordinates real estate and agricultural financing for the purpose of developing agriculture, forestry, fisheries, livestock and related businesses. It also promotes real estate and agricultural policies.

(3) The Cooperative Bank of Taiwan is also a provisional bank which coordinates the financing of cooperatives and farmer's and fishermen's associations. It provides credit to these agencies for market research and other related services.

(4) The Farmer's and Fishermen's Associations Credit Unions coordinate the activities of these two associations with those of the Council of Agriculture of the Executive Yuan. They operate at the provincial, county and village levels. This network credit is extended to members of these two associations, who otherwise would not have access to credit. Taipei has 285 farmers' Associations with a total of 759 branches, and 27 Fishermen's Associations with 32 branches. Loans extended by the above institutions for the past ten years may be seen in Tables 1.24 and 1.25. One can observe that the share of the Farmer's and Fisherman's Associations is the largest among the four institutions, followed by the Farmer's Bank of China and the Cooperative Bank.

There are six major government agencies and government business organisations associated with agricultural credit. They are:-

(1) The Council of Agriculture of the Executive Yuan,
(2) Taiwan Food Bureau,
(3) Taiwan Tobacco and Wine Monopoly Bureau,
(4) Taiwan Supply Bureau,
(5) Taiwan Sugar Corporation, and
(6) Taiwan Provincial Consumers Cooperative for Sugar Cane Farmers.

(1) The Council of Agriculture of the Executive Yuan aims to promote agriculture, fisheries, livestock and forestry production, crop diversification, water conservation and improvement of farming

Table 1.24

THE STRUCTURE OF AGRICULTURAL LOANS IN TAIWAN DISTRICT BY LENDING INSTITUTIONS

(Million NT Dollar)

The end of the year	Total Agricultural loans	Loans of Three Agricultural Banks								Credit Departments of Farmers' Associations		Other Agricultural Lending Institutions	
		Subtotal		The Farmers Bank of China		Land Bank of Taiwan		The Cooperative Bank of Taiwan					
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1981	109,300	60,998	55.8	21,947	20.1	16,547	15.1	22,504	20.6	40,287	36.9	8,015	7.3
1982	134,140	75,670	56.4	22,115	16.5	25,170	18.8	28,385	21.2	50,472	37.9	7,998	6.0
1983	166,600	94,175	56.5	26,434	15.9	28,864	17.3	38,877	23.3	64,359	38.6	8,066	4.8
1984	199,498	17,595	58.9	35,808	17.9	33,231	16.7	48,556	24.3	74,316	37.3	7,587	3.8
1985	222,100	33,374	60.1	36,773	16.6	41,693	18.8	54,908	24.7	80,120	36.1	8,606	3.9
1986	223,409	33,116	59.6	44,973	20.1	42,046	18.8	46,097	20.6	81,930	36.7	8,363	3.7
1987	245,992	51,306	61.5	52,485	21.3	44,802	18.2	54,020	22.0	84,470	34.3	10,216	4.2
1988	308,773	84,133	59.6	72,789	23.6	49,428	16.0	61,916	20.4	101,554	32.9	23,086	7.5
1989	383,667	25,745	58.8	77,540	20.2	53,081	13.8	95,123	24.8	136,582	35.6	21,340	5.6
1990	439,798	45,641	55.9	97,099	22.1	51,539	11.7	97,003	22.1	173,354	39.4	20,803	4.7
1991	499,130	280,070	56.1	114,531	22.9	57,938	11.6	107,601	21.6	199,729	40.0	19,334	3.9
1992	599,234	305,968	51.1	119,490	19.9	66,012	11.1	120,466	20.1	278,268	46.4	14,998	2.5

Source: Loan Statistics for Agricultural Lending Institutions (or Agencies) in Taiwan District, Investigation and Research Department, the Farmers Bank of China.

Table 1.25

SHARE OF AGRICULTURAL LOANS FOR THREE AGRICULTURAL BANKS

(Million NT Dollar)

The end	The Farmers Bank of China			Land Bank of Taiwan			The Cooperative Bank of Taiwan		
of the year	Agricultural Loan (1)	Total Loan (2)	Share (1)/(2)	Agricultural Loan (3)	Total loan (4)	Share (3)/(4)	Agricultural Loan (5)	Total Loan (6)	Share (5)/(6)
1981	21,947	37,302	58.8	16,574	72,730	22.8	22,504	84,278	26.7
1982	22,115	38,545	57.4	25,170	129,528	19.4	28,385	105,609	26.9
1983	26,434	47,095	56.1	28,864	146,162	19.7	38,877	145,052	26.8
1984	35,808	61,688	58.0	33,231	165,790	20.0	48,556	179,203	27.1
1985	36,773	64,199	57.3	41,693	184,920	22.5	54,908	202,957	27.1
1986	44,973	78,187	57.5	42,046	193,237	21.8	46,097	198,243	23.3
1987	52,485	91,488	57.4	44,802	208,317	16.7	54,020	268,323	25.9
1988	72,789	117,835	61.8	49,428	269,630	18.3	61,916	346,990	17.8
1989	77,540	132,675	58.4	53,081	358,379	14.8	95,123	407,364	23.3
1990	97,099	164,141	59.2	51,539	371,549	13.9	97,003	454,351	21.3
1991	114,531	190,328	60.2	57,938	507,032	11.4	107,601	619,976	17.4
1992	119,490	196,617	60.8	66,012	619,416	10.7	120,466	735,559	16.4

Sources: 1. Loans Statistics for Agricultural Lending Institutions (or agencies) in Taiwan Districts, Investigation and Research Department, the Farmers Bank of China.

2. *Financial Statistics Monthly,* Taiwan District, R.O.C. Economic Research Department, The Central Bank of China.

practices through technical assistance. It aids farmers in taking advantage of economies of scale through various means of cooperation and thereby increase their incomes.

(2) Taiwan Food Bureau was founded in 1950 to formulate government policies in maintaining a stable agricultural market. Before the 1970's, it was the main source of fertilizer supply and agricultural credit for farmers who repaid their loans in kind. It also handled the collection of land tax which was also paid in kind.

(3) Taiwan Tobacco and Wine Monopoly Bureau produces and controls the distribution of all tobacco products and alcoholic beverages. Tobacco farmers are provided loans to stabilise the supply of tobacco leaves.

(4) Taiwan Supply Bureau used to provide loans to promote cultivation of jute. As it proved no longer profitable to grow jute in the face of strong international competition, the extension of such loans has also been terminated.

(5) Taiwan Sugar Corporation aims to ensure the supply of sugar, for which it offers contracts to purchase sugar from farmers and provide them with loans.

(6) Taiwan Provincial Consumers Cooperative for Sugar Cane Farmers was founded in 1970 to provide credit and technical assistance to sugar cane farmers. Loans are extended not only for production purpose, but also for land improvement, farm mechanisation and pig farming which is often taken up by sugar cane farmers.

The Agricultural Credit Guarantee Fund was set up in September 1983 and began operations in March 1984. It helps farmers to qualify for loans from agricultural credit organisations so that they do not have to turn to private lenders who charge much higher interest rates. The operation of this Fund reduces the risks of lending credit organisation and thereby helps to increase the supply of agricultural credit. A summary of guarantee operations is given below.

Table 1.26

SUMMARY OF GUARANTEE OPERATIONS

(Million NT Dollar)

Pieces and amount Year	Guarantee pieces (piece)	Loans amount	Guaranteed amount
1984 (Mar-Dec)	1,095	449	365
1985	5,777	2,759	2,264
1986	6,513	3,560	2,887
1987	6,619	4,508	3,649
1988	6,473	4,903	3,994
1989	5,002	4,897	4,009
1990	4,208	5,165	4,196
Total	35,687	26,241	21,362

Source: *Annual Report of the Agriculture Credit Guarantee Fund.*

A most encouraging development in the agricultural credit system in ROC is the fact that up to 1973, production loans and fertilizer supplied on credit were repaid in kind. Payments for land taxes and public land rentals were also paid in kind. Since 1973, however, all loans have been repaid with cash.

There are two types of agricultural loans, namely,

(1) Ordinary loans; and,

(2) Policy loans. Ordinary loans are those extended by the financial institutions at their own discretion and in accordance with normal banking principles. On the other hand, policy loans are granted in

support of government policy to promote agricultural development and improve the living standards of farmers. The programme for reinforcing rural construction to improve farmers's incomes was first initiated in 1973. This was followed by a second stage whose thrust was to improve the productivity of farm land. In support of the above measures, policy loans were granted for acceleration of rural community development, agricultural mechanisation, purchase of farmland to expand farming operations and for tenants to purchase their own farms. These loans were extended on very favourable terms. These loans have contributed significantly to ROC agricultural development. The record of policy loans is given below.

Table 1.27

OUTSTANDING BALANCE OF EACH POLICY LOANS

(Million NT Dollar)

	Loans for Agricultural Mechanization	Loans for Accelerating Agricultural Construction	Loans for Assisting Farmers to Purchase the Farmland	Loans for Renovating Farmers' Houses
1974	- -	737	- -	- -
1975	- -	1108	- -	- -
1976	- -	937	- -	- -
1977	- -	1638	- -	- -
1978	- -	2081	- -	- -
1979	847	2524	- -	- -
1980	2,433	2,551	1,042	- -
1981	6,134	2,772	1,104	- -
1982	7,237	2,677	1,153	- -
1983	7,253	3,712	1,381	- -
1984	6,755	3,292	1,710	- -
1985	6,698	3,594	2,016	- -
1986	6,293	3,378	2,224	- -
1987	5,126	3,299	2,136	- -
1988	4,463	4,973	2,225	- -
1989	4,273	8,004	2,552	- -
1990	5,004	11,463	2,940	- -
1991	5,585	11,993	3,041	198
1992	6,091	13,125	3,697	576

Source: Agricultural Credit Division, Council of Agriculture.

Agricultural loans extended by financial institutions have increased by about 6 times between 1987 and 1992. It will be observed that as agriculture accounts for only a small part of the GDP, the share of agricultural loans in the total loans of financial institutions is also small.

Table 1.28

GROWTH AND SHARE OF AGRICULTURAL LOANS IN TOTAL LOANS OF FINANCIAL INSTITUTIONS

(Million NT Dollar)

The end of the year	Total Loans of Financial Institutions		Agricultural Loans		Share of agricultural loans in total loans of financial institutions (%)
	Amount	Growth Rate (%)	Amount	Growth Rate (%)	
1981	1152189	12.7	109300	8.7	9.5
1982	1350422	17.2	134140	22.7	9.9
1983	1560260	15.5	166600	24.2	10.7
1984	1743723	11.8	199498	19.7	11.4
1985	1839609	5.5	222100	11.3	12.1
1986	2010838	9.3	223409	0.6	11.1
1987	2419987	20.3	245992	10.1	10.2
1988	3355160	38.6	308773	25.5	9.2
1989	4372643	30.3	383667	24.3	8.8
1990	4982782	13.9	439798	14.6	8.8
1991	6122149	22.9	499130	13.5	8.2
1992	7703629	25.8	599234	20.1	7.8

Sources: Loan Statistics for Agricultural Lending Institutions (or Agencies) in Taiwan District, Investigation and Research Department, the Farmers Bank of China.

Financial Statistics Monthly, Taiwan District, R.O.C. Economic Research Department, The Central Bank of China.

In the past ten years, the Republic of China has not obtained financing from external sources for its rural development.

IX. Financial Facilities for Rural Development in Thailand

9.1 The Role of Agricultural Sector in the Economy

The share of the agricultural sector to GDP in Thailand which went as high as 30.2 percent in 1970 declined to 14.4 percent in 1990 even as this sector provided 64.0 percent of total employment in 1990. In Thailand, agricultural development has traditionally been considered as an important integral part of rural development.

Table 1.29

THAILAND: SECTORAL SHARE IN GDP AND EMPLOYMENT SHARE IN AGRICULTURE

(1985 Constant prices; per cent)

	1976	1980	1985	1990	1991	Average 1976-1990
GDP growth rate	-	4.8	3.5	10.0	-	7.7
Agricultural sector growth rate	-	1.7	6.2	-1.8	-	3.8
Manufacturing sector growth rate	-	2.9	-0.6	13.7	-	9.0
Agricultural sector share in GDP	24.0	20.6	19.9	14.4	-	19.6
Manufacturing sector share in GDP	21.0	21.7	20.7	24.7	-	22.1
Employment share in agri.	75.8	70.8	68.4	64.0	-	69.3

Source: *Key Indicators of Developing Asian and Pacific Countries,* ADB, various issues.

From the First to the Fourth Economic and Social Development Plans starting in 1961, development strategies were aimed at the rural sector in a relatively indirect manner. Building infrastructure was the focal means to increase the capacities of productive sectors in the rural area, particularly the agricultural sector. It was believed that benefits from the growth of productive sectors in general and the agricultural sector in particular would trickle down to the rural poor. Diffusion of benefits did occur, but only rather slowly. Several rural areas remained at subsistence level.

To remedy this shortcoming, the Fifth Plan starting in 1982, endorsed more specific and direct strategies for the rural areas. This involved identification of targeted areas for rural development efforts. Apart from the attempts to raise productive capacities of these target groups, there were programmes to provide basic educational and health services. The Sixth Plan followed the same strategy. In addition to the targeted areas, the goals of the Sixth Plan are to transform traditional farming into modern agriculture and to realise the potentials of rural industries so that they will provide additional sources of rural income.

9.2 Institutional Financing for Rural Development

In support of the above rural development efforts, the financing facilities have been made available by the Bank of Thailand, the Bank for Agriculture and Agricultural Cooperatives (BAAC), the commercial banks at the top level, and the agricultural cooperatives, registered farmers' groups and the informal sector.

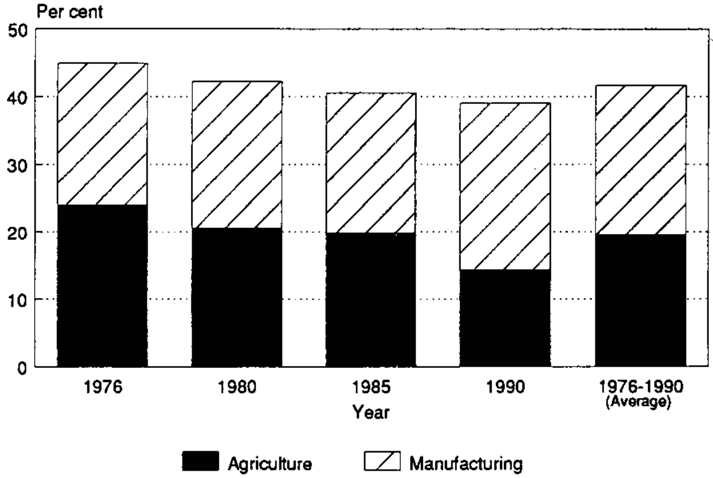
In the past, the informal sector was responsible for much of the provision of agricultural credit. The share of the informal sector rural credit has been estimated at 44 percent[8]. In recent years, however, the government has become increasingly involved in the provision of rural credit for development and production activities, and the share of formal market in rural lending is more than that of the informal market.

The Bank of Thailand regulates and coordinates the use of resources, especially for commercial banks, and provides resources to formal credit institutions. It provides rediscounting facilities to commercial banks and BAAC. The BAAC and commercial banks are the main and direct sources of credit to farmers. In addition to their own farmers clients, these institutions especially BAAC, also provide a large proportion of the credit requirements of agricultural cooperatives and registered farmers groups for relending to their members. BAAC loan disbursement is furnished below.

8. Ghate, *op. cit.*, p.860.

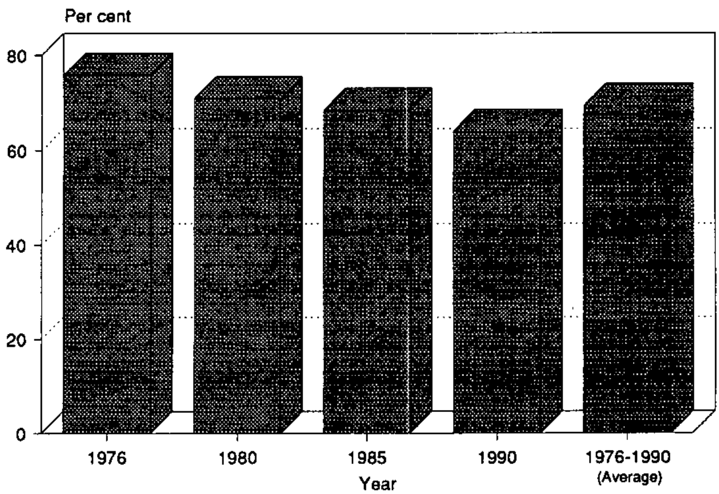
Thailand

CH 1.9a: SECTORAL SHARE IN GDP
(1985 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

CH 1.9b: EMPLOYMENT SHARE IN AGRICULTURE
(1985 Constant Market Prices)



Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, various issues.

Table 1.30

PERCENTAGE OF FARMERS' BORROWING FUNDS BY SOURCE OF LOANS

(Per Cent)

Year	Informal market						Formal market				
	Relatives	Neighbours	Landlords	Traders	Others	Total	BAAC	Commercial Banks	Cooperatives farmers' group	Others	Total
1971/72	15.36	18.73	2.20	23.98	3.38	63.65	11.93	2.83	15.59	-	36.35
1975/76	12.89	10.83	0.70	15.61	2.51	42.53	33.36	6.46	17.65	-	57.47
1976/77	14.98	6.75	0.21	13.42	1.61	36.97	39.17	7.49	16.37	-	63.03
1978/79	12.69	9.04	0.40	13.26	0.73	36.12	35.46	9.41	19.01	-	63.88
1980/81	10.91	9.03	17.93	3.18	1.05	42.10	26.65	11.51	19.36	0.38	57.90
1982/83	14.97	9.75	0.15	12.53	2.04	39.05	29.56	9.46	16.36	5.57	60.95

Sources: "Agricultural Credit in Thailand", Pantum Thysiamondol, Kasetsart University, Bangkok.

Table 1.31

DISBURSEMENT OF BAAC LOANS, 1975-1990

(Million Baht)

	Direct Lending					On-Lending through				Total Disbursement	
	Short	Medium	Long	Sub-total		Cooperatives		Farmers Associations			
	(Amt.)	(Amt.)	(Amt.)	(Amt.)	%	(Amt.)	%	(Amt.)	%	(Amt.)	%
1975	1,298	709	94	2,101	53	866	26	388	11	3,355	100
1980	4,136	1,254	560	5,950	72	2,245	27	90	1	8,285	100
1985	10,936	1,222	1,985	14,143	82	3,181	18	26	-	17,350	100
1986	17,709	83	1,745	19,537	84	3,659	16	23	-	23,219	100
1987	15,764	4	2,085	17,853	82	3,913	18	30	-	21,796	100
1988	16,581	1,204	3,364	21,149	83	4,314	17	38	-	25,501	100
1989	22,292	1,189	4,532	28,013	83	5,795	17	25	-	33,832	100
1990	22,650	5,965	4,394	33,009	82	7,003	18	28	-	40,040	100
Average Annual Growth											
1975-80	26.1%	12.1%	42.9%	23.1%		21.0%		-25.3%		19.8%	
1980-85	21.5%	-0.5%	28.8%	18.9%		7.2%		-22.0%		15.9%	
1985-90	15.7%	37.3%	17.2%	18.5%		17.1%		1.5%		18.2%	

Source: Replies to the SEACEN Financial Facilities for Rural Development Project Survey Questionnaire.

Agricultural cooperatives and registered farmer groups are formed and organised with the objective of providing an "integral package" to help improve the standard of living in rural communities through the provision of credit, marketing, farm supply, processing, farm extension and other services related to farmers. Their loanable funds are from their own savings, BAAC, commercial banks and government agencies.

The linkage between financial facilities and rural development has never been explicitly stated in any of the rural development strategies. The Bank of Thailand, however, designs strategies to provide rural financial resources in conformity with the rural development goals. Just like other central banks, the Bank of Thailand provides rediscount facilities to commercial banks to enable them to expand their lending capacity, including the agricultural sector. To increase commercial banks' agricultural loans, the Bank of Thailand prescribed minimum lending requirements for these institutions and these requirements increased from 5 percent in 1975 of the previous year's deposits to 20 percent (14 percent for direct lending to the rural sector and 6 percent for agri-business) by 1987. Commercial banks were to deposit the shortfall on this requirement with BAAC. Many commercial banks prefer the practice of depositing balances in BAAC for agricultural lending rather than lending directly. Outstanding loans by commercial banks and cooperatives are given below.

Table 1.32

OUTSTANDING COMMERCIAL BANKS RURAL CREDIT BY TYPE AND TERM

(Million Baht)

	1988	1989	1990	1991	1992
Overdraft	18,942	23,327	30,389	36,593	40,881
Loan:	29,928	38,766	53,025	65,058	76,331
less than 3 years	16,789	21,114	27,786	31,644	36,544
3-5 years	7,517	9,485	13,159	17,607	21,084
over 5 years	5,622	8,167	12,080	15,807	18,703
Bills and others	6,791	9,591	13,321	15,296	15,751
Total	55,661	71,684	96,735	116,947	132,963

Source: Replies to the SEACEN Financial Facilities for Rural Development Project Survey Questionnaire.

Table 1.33

OUTSTANDING AGRICULTURAL COOPERATIVES LOANS BY TERM

(Million Baht)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Short Term	1,983	2,262	1,757	2,150	2,364	2,628	2,902	3,263	4,192	4,841
Medium Term	2,185	2,273	1,040	1,106	1,199	1,327	1,463	1,773	2,479	3,320
Long Term	1	-	-	-	5	2	2	1	24	29
Total	4,169	4,535	2,797	3,256	3,568	3,957	4,367	5,037	6,695	8,190

Source: Replies to the SEACEN Financial Facilities for Rural Development Project Survey Questionnaire.

The Bank of Thailand's rediscount facilities for agricultural and rural development and Mandated Targets and Actual Lending of commercial banks are given below:

Table 1.34

BOT REDISCOUNT FACILITIES FOR AGRICULTURE/RURAL DEVELOPMENT

(Billion Baht)

Type of Facility	Annual Disbursement					
	1980	1985	1986	1988	1989	1990
Ag. Production	0.88	0.51	0.68	1.24	1.72	1.946
- Animal Husbandry	(0.88)	(0.51)	(0.58)	(0.63)	(0.82)	(1.80)
- Sugar cane	(-)	(-)	(0.10)	(0.61)	(0.90)	(0.14)
Ag. Product Trading	6.62	(-)	1.00	6.09	4.22	4.851
- Paddy	(n.a.)	(-)	(n.a.)	(6.09)	(4.22)	(4.851)
- Others	(n.a.)	(-)	(n.a.)	(-)	(-)	(-)
Rural Development	-	-	-	-	-	1.127

Source: Replies to the SEACEN Financial Facilities for Rural Development Project Survey Questionnaire.

Table 1.35

MANDATED TARGETS AND ACTUAL LENDING OF COMMERCIAL BANKS FOR AGRICULTURAL SECTOR, 1975-90

(Million Baht)

	Actual Lending		Mandated Target		Lending Shortfall		Deposit with BAAC	
	Amt.	% of Dep.	Amt.	% of Dep.	Amt.	% of Dep.	Amt.	% of Dep.
1975	2,234	3.2	4,333	6.2	2,099	3.0	1,682	2.4
1978	8,100	6.2	11,771	9.0	3,671	2.8	5,511	4.2
Av. 1979-81	12,029	6.6	20,060	11.0	8,031	4.4	7,045	3.9
Av. 1982-84	28,233	8.5	35,988	11.0	7,755	2.5	8,915	2.8
Av. 1985-86	38,907	7.5	57,084	11.0	18,177	3.5	10,899	2.1
1987	55,864	9.0	86,932	14.0	31,068	5.0	12,340	2.0
1988	73,211	9.8	104,111	14.0	30,900	4.2	14,119	1.9
1989	99,983	11.3	123,809	14.0	23,826	2.7	14,486	1.6
1990	155,836	13.9	157,246	14.0	1,410	0.1	14,503	1.3

Source: Replies to the SEACEN Financial Facilities for Rural Development Project Survey Questionnaire.

The attention paid to rural development in Thailand may be observed from the budget expenditure of the Rural Development Plan 1985-1994 which shows an increasing trend of allocation for this activity as seen below.

Table 1.36

BUDGET EXPENDITURE IN THE RURAL DEVELOPMENT PLAN 1988-1994

(Million Baht)

FY	1988	1989	1990	1991	1992	1993	1994
1. Infrast. improvement	2,142.3	3,495.8	6,966.0	6,984.1			
2. Increased output	1,767.7	2,130.0	3,186.4	4,449.3			
3. Health	4,370.0	4,928.6	6,659.0	7,734.5			
4. Water devt.	3,816.5	5,467.1	8,016.0	10,843.6			
5. Educat.	825.2	701.2	859.9	1,203.7			
6. Quality of life					2,790.8	3,404.1	3,954.0
7. Human resource devt.					8,484.0	11,264.4	16,877.6
8. Investment opport.					2,907.4	4,227.8	9,065.3
9. Natural resource devt. and environ.					4,567.7	5,317.5	8,253.6
10. Life security					36.3	35.3	41.7
11. Management improvem.					102.4	116.1	106.0
12. Others					17,408.0	20,983.2	30,000.2
Total	12,921.7	16,722.7	25,687.3	31,215.2	36,296.6	45,348.4	68,298.4

Source: Replies to the SEACEN Financial Facilities for Rural Development Project Survey Questionnaire.

Another interesting programme for rural development is the Rural Job Creation Programme (RJCP) conceived in 1975. It is intended to create jobs for the farmers in rural areas during the off-season when they are idle. The RJCP enjoys a large budget allocation to undertake infrastructure projects such as water resource projects, roads, bridges, and silos projects. These projects have provided employment to the farmers during the slack season and thus has enhanced the quality and productivity of rural life.

As integral component of rural development, better health care services are also provided, particularly for the poor in the rural areas under the Free Medical Services for the Poor Programme. As for education, most of the higher educational institutions are subsidised. These indirect means of financial support by the government may be considered important contribution towards rural development. In the share of foreign aid received by Thailand, the agriculture and education sectors are most prominent. The combined share of these two sectors stood at some 50 percent of the total foreign aid in 1987 and 1988, but has since declined.

Table 1.37

FOREIGN AID

(Thousand US Dollar)

	1985	1986	1987	1988	1989	1990	1991
Agriculture	36,333.0	41,376.2	96,882.4	91,454.0	62,895.5	28,664.0	35,100.5
Education	37,474.4	46,994.9	33,782.0	22,798.2	25,122.1	20,814.1	34,203.6
Health	12,366.8	15,810.6	6,316.0	8,502.7	5,654.3	4,732.9	3,671.0
Gen. Admin	24,065.1	19,130.9	21,565.9	18,899.6	31,178.4	75,245.7	44,696.9
Transportation	1,549.6	1,641.7	15,418.8	12,534.0	3,275.5	5,535.1	8,121.1
Soc. and com. dev.	17,417.3	20,621.1	49,357.2	40,974.6	50,247.0	51,899.8	20,061.2
Environment	253.2	198.0	211.1	1,446.9	1,198.4	6,068.8	4,352.7
Industry	1,562.6	24,898.9	16,732.0	11,084.3	4,139.8	18,850.7	4,890.4
Energy	5,644.1	16,076.5	1,833.0	4,338.8	3,947.8	5,718.4	4,821.0
Others	8,792.3	2,608.5	8,273.9	17,901.4	51,126.0	40,489.8	40,343.7
Total	145,458.4	189,357.3	250,372.3	229,934.5	249,574.8	258,019.3	200,262.1

Source: Replies to the SEACEN Financial Facilities for Rural Development Project Survey Questionnaire.

Chapter 2

PERFORMANCE OF FINANCIAL FACILITIES FOR RURAL DEVELOPMENT IN THE SEACEN COUNTRIES

I. Poverty Alleviation through Financing for Rural Development

The foregoing brief survey of the financial facilities available for rural development in the SEACEN countries suggests that the SEACEN countries included in this survey have one form or other of programmes whose major thrust is towards rural development. A common feature in such programmes is the determination of SEACEN member governments in translating their concern for rural development into concrete lending facilities and institutional and policy reforms. In this chapter, the performance of SEACEN members in the effort at providing financial facilities for rural development in their countries will be examined.

This study considers the main thrust of rural development in terms of providing facilities which allow for a better socio-economic life in the rural areas of a country. In this context, alleviation of poverty is an integral part of rural development. An overview of the rural development efforts in the SEACEN countries has indicated that financial inputs have been increasingly provided and have gone into rural development. In the process, they contributed to the increase in agricultural output towards alleviating rural poverty.

The various means employed to promote the financing of rural development in the SEACEN countries include the traditional modes such as the implementation of general policies and operational guidelines by the central banks to influence the lending activities of lending banks, e.g. directives requiring banks to channel a certain percentage of the loans to the agricultural sector as in Indonesia, Korea, Malaysia, Nepal, the Philippines and Thailand. The central bank rediscounting facility has also been a popular method of providing agricultural credit and has been employed by most of the SEACEN members. However, it would be of interest to point out that the rediscounting window of the Central Bank of the Philippines had been a source of first, rather than of last, resort for funds by many rural banks.

Another common method of influencing the volume and composition of rural credit is through ceilings on interest rates charged by banks on agricultural loans as was carried out in Indonesia, Korea, Malaysia, Nepal, the Philippines and Thailand. The central banks also resort to some forms of guarantee schemes in promoting the expansion of rural credit as undertaken in Korea, Nepal, the Philippines and Sri Lanka. Furthermore, to encourage lending to the rural sector, most of the central banks have subsidised their loans to the financial institutions for on-lending for rural development.

The above measures appear to have made it possible for the financial institutions to provide a considerable increase in the volume of agricultural credit made available for rural development. The increase in rural credit was critical in promoting higher agricultural output, and such higher production had led to a significant alleviation of poverty in Indonesia, Korea, Malaysia, Taiwan and Thailand[1]. In addition to the contribution made by the financial facilities to the alleviation of poverty in the context of rural development, it will be useful to examine the experience of Korea and Taipei with regards to rural credit in order to recognize the lessons which can be drawn.

1.1 Korea: Overall Success in Providing Rural Credit

Korea's rural development strategy involved the implementation of extensive land reform, the provision of inputs and credit, the diffusion of effective agricultural technologies and subsidised price support for farm commodities. Korea followed land reforms which emphasised the "rights to the product of the land they till" theme; this was most crucial to the design and prospects of an appropriate programme of rural credit.

In the 1960's, Korea implemented an extensive network of rural cooperatives. They were organised on three levels: primary cooperatives and the township level; country cooperatives; and the National Agricultural Cooperative Federation (NACF) at the national level. The NACF set up a Mutual Finance Scheme (MFS) in 1969 and persuaded the primary cooperatives to join the scheme. The MFS was envisioned as a nationwide mutual fund for primary cooperatives. It offered primary cooperatives interest on their deposits which was 1 percentage point higher than those offered by the commercial banks. And on loans, the interest rates were 1 or 2 percentage points higher

1. Burki, S.J., "Development Strategies for Poverty Alleviation", *Asian Development Review,* Vol. 8, No. 1, 1990, ADB, pp.1-17.

than those of commercial banks. At the same time, it assured the primary cooperatives participation in the profits of MFS. Deposits of cooperatives were 20 per cent of loanable funds in 1961 and by 1975, they had risen to 51 per cent. As regards NACF loans to rural households, they rose from just 15 per cent of total rural loans in 1969 to over 85 percent by the mid 1980's. During this period, the informal sector's rural interest rate fell from over 60 per cent to 15 per cent. Mobilising of rural financial savings through positive real interest rates by the NACF was perhaps the most distinguishing feature of the Korean success story. Part of the success of the Korean primary cooperatives may be found in the managerial and financial skills in the organisation which emphasized proper accounting, record keeping and educational training of managers. Another reason for the successful performance of Korean cooperative movement may be traced to the successful mobilisation of people and resources during the development decade through the promotion of an efficient village communal system borne out of the concept of sharing and moral commitment. This last reason contributed in no small way to the success of the Korean cooperative rural credit movement.

1.2 Republic of China (ROC): Overall Success in Providing Rural Credit

The Republic of China's success experience is characterised by the rapid adoption of new technology by a large number of small farmers, with most of the increase coming from improved yields, derived from the use of better inputs and the expansion of irrigation. It is generally agreed that the success would not have been achieved without the organisation of farmers into associations in a federated three-tiered system of multipurpose organisations. The farmers' associations have become an important source of institutional credit, and this appears to have been one of the major factors responsible for the acceleration in rural development. By the end of 1991, the outstanding balance of loans by the Farmers Associations was 40 per cent of the total outstanding agricultural loans from formal sources.

ROC's success in using formal rural financial markets to support rural development is attributed in large part to its market-based approach. It managed to build a durable formal rural financial market which reached virtually all of the people living in the rural areas, succeeded in mobilising impressive amounts of deposits; and, to provide services at low transaction costs, and maintained high rates of loan recovery.

Apart from the overall success achieved by Korea and the ROC with respect to the provision of rural credit, we may now survey some of the rural financial institutions in two other member countries, viz., Indonesia and Thailand, where performance can be considered as successful.

II. Successful Performance of Rural Finance Institutions in Indonesia and Thailand

The subject institutions are the Badan Kredit Kecamatan (BKK) and the Bank Rakyat Indonesia United Desa (BUD) of Indonesia and the Bank for Agriculture and Agricultural Cooperatives (BAAC) of Thailand.

Badan Kredit Kecamatan (BKK) began operation in 1972. The BKK is a large scale, efficient, profitable programme which operated on the principle of "fast, cheap and productive credit". BKK's lending procedures are designed to be simple, since the majority of the clients have very low incomes, and are often illiterate. There are six different loan maturities: (1) daily; (2) every five days; (3) weekly; (4) monthly; (5) every thirty five days; and (6) seasonal credit. BKK is a mobile banking system providing standardised financial services at the village level. Lending and collection are often conducted on market days. BKK is currently offering credit to 510,000 rural clients for off-farm activities. Savings have played an increasingly important role as a source of funds for BKK. Obligatory savings backed 16 per cent to 20 per cent of the outstanding loan portfolio from 1986 to 1989. BKK offers bonus to its staff based on the level of profits generated by the individual units which act as a strong incentive for the loan officers to expand the client base and maintain high collection rates. BKK's current loan collection record has been satisfactory, due in large part to the pressure system which incorporates the village head into the client selection process. Repayment problems can damage the social status of the village head as well as the borrower, and this provides added pressure for compliance with the terms of the loan agreement. BKK's return on average annual equity for 1989 was an impressive 13 per cent. BKK has been successful in terms of the out-reach achieved and transaction costs have been minimised by "mobile banking" techniques, while asymmetric information risks are lowered by the designation of the village head as a character reference in the borrower selection process. The subsidy dependence index for BKK shows improvement over the 1987-89 period, decreasing from 24 per cent in 1987 to 20 per cent in 1989.

The Kredit Umum Pedesaan (KUPEDES) or General Credit Programme (BUD) was introduced in early 1984 by Bank Rakyat Indonesia (BRI). BUD operated at the village level in the Unit Desas, small rural branches established in the early 1970s to provide credit to rice farmers. The Unit Desas have gradually become full service banks, providing a variety of financial services primarily to rural clients throughout Indonesia.

As a result of Indonesia's financial reforms in the early 1980s, the Unit Desas have been transformed from suppliers of subsidised, targeted credit to autonomous financial entities serving low-and medium-income rural producers. BUD was established to encourage the Unit Desas to become a well-organised financially viable network, mobilising sufficient amount of savings to back future loan portfolio growth. At the village level, local borrowers participate by attending the loan interview and the village head assists in screening borrowers by issuing a certificate of ownership or tenancy. Since 1984, the Unit Desas system has registered impressive growth. Between 1984 and 1989 total assets increased by 700 per cent. Outstanding loans have increased from Rp. 326 billion in 1986 to Rp. 807 billion by 1989. The most striking growth was that of savings deposits which rose from a mere Rp. 40.2 billion in 1984 to Rp. 926.6 billion by the end of 1989. Net profits increased from Rp. 9.8 billion in 1986 to Rp. 36.9 billion in 1989. The subsidy dependence index reveals that BUD no longer needs subsidy but has become financially self-sustainable as indicated by the subsidy independent index which was reduced from 3 per cent in 1987 to -8 per cent in 1989. A recent impact study undertaken by BRI concluded that the BUD Programme has had a significant impact in poverty alleviation and in facilitating the access of women to credit. BUD now services 1.6 million borrowers[2].

On the other hand, BAAC which was founded in 1966 to assist cooperatives and a small group of farmers, now serves the credit and

2. Yaron, Jacob., "Successful Rural Finance Institutions", World Bank Discussion Papers, No. 150, 1992, p. 1.

savings needs of more than 2.6 million clients (52 per cent of the farming households). Short-term loans make up 70 per cent of the loan portfolio. Most of BAAC's short-term loans are unsecured and rely on the joint liability system, enabling it to expand the out-reach without jeopardizing the repayment record significantly. Medium-term credit accounts for about 5 per cent of the total loan portfolio, while long-term loans add up to 25 per cent and are the fastest growing segment of BAAC's activities. Over the past ten years, BAAC's gross income increased at an average annual rate of 11.5 per cent and has offered a return on average annual equity of 8.5 per cent. Deposits from commercial banks provide 36 per cent of the funds; while deposits from the general public provide another 29 per cent and this source of funds is the fastest growing share, increasing at an annual rate of 19 per cent per annum. This impressive growth is directly related to BAAC's rural savings mobilising campaign. Loan collection rates in 1988 for short-term loans were 85-88 per cent and for long-term loans, they averaged 69 per cent. Operating costs appear to be relatively stable as a percentage of total loans outstanding in the range of 4.5 per cent to 5.0 per cent from 1983 to 1988. Compared to similar institutions in other countries, BAAC's operating costs are markedly low. BAAC's subsidy dependence index (SDI) can be rated as low. While this was about 28 per cent in 1988, it dropped to 23 per cent just two years later.

In reviewing the performance of the three financial institutions, we may observe some common features among them which were responsible for their success.

All three institutions have operated under stable economic countries where annual inflation rates were less than 10 per cent. The stable economies were conducive to reducing uncertainty, higher returns on investment and impressive repayment rates. The liberalization of financial markets has also contributed to the successful operation of these institutions. For example, the liberalization of financial markets has allowed adequate pricing of rural financing institutions in Indonesia, and has encouraged BAAC in Thailand to gradually reduce its dependence on subsidy and pursue savings mobilisation as its prime growth resource to substitute for the dwindling share of the central bank's rediscounting facilities used in financing its lending activities.

Apart from these conditions which were supportive of successful operations, the financial policies adopted, such as the application of positive market-determined lending rates and promotion of savings mobilisation through market-determined deposit rates have also played an important part in improving the sustainability of these institutions. All the three institutions have applied positive rates of interest for their lending activities, ranging in real terms from 2.6 per cent (for some BAAC loans) to more than 20 per cent (BUD) and even over 100 per cent (BKK). These interest rates compare favourably with those in the informal interest rates as indicated in the following table:

Table 2.1

ON-LENDING INTEREST RATES

	BKK	BUD	BAAC
Real on-lending interest rate (per annum)	72% to 116%	14.6% to 23.9%	2.6% to 4.0%
Nominal effective interest rate (per annum)	84% to 130%	22% to 32%	11% to 12.5%
Informal nominal on-lending interest rate	13% to 15% (per month)	13% to 15% (per month)	25% to 60% (per annum)

Source: Yaron, Jacob, "Successful Rural Finance Institutions", World Bank Discussion Papers, No. 150, 1992.

The institutions reviewed have tended to promote specific market-priced savings instruments tailored to the needs of the rural population in terms of liquidity and reasonable minimum deposits. Obligatory savings can serve at the margin as a loan guarantee for the financial institutions, but voluntary savings hold the key to the kind of dramatic growth that has enabled BUD to grow and reach subsidy independence just a few years after operations began. In fact, all of the institutions started as supply-led credit institutions emphasing credit delivery rather than addressing the demand for deposit and savings services. Only at a later stage did savings mobilisation become a major growth factor for BUD and the most rapidly growing financial resource for BAAC. BUD's ability to attract non-borrowers as savers has led to especially effective savings mobilisation. Promoting better deposit and savings facilities is essential for rural development. It encourages the rural population to save and store value in an efficient way and, thus increase domestic savings. A rural financial institution's success in mobilising savings is crucial for its becoming self-sustainable. These savings can also serve in substituting for state and international donor funds. We may have an idea about the performance of these institutions for their savings mobilisation record from this table:

Table 2.2

SAVINGS RATIO

	BKK	BUD	BAAC
Total savings as a ratio of loan portfolio 1989 (%)	20	110	42

Source: Yaron, Jacob, "Successful Rural Finance Institutions", World Bank Discussion Papers, No. 150, 1992.

All these three institutions reviewed have used incentives and sanctions to ensure a timely loan repayment. All three have had a policy of increasing the amount of credit available to a client in subsequent loans. BKK and BUD have offered significant interest rate rebates on prompt repayments. BAAC has established a 3 per cent per annum penalty on arrears, i.e., about a quarter of its regular lending rate. If a single member fails to repay in time, BAAC disqualifies the entire self-help group from further credit until the repayment has been made.

The above policies have been responsible in part for the high loan collection rates of the three institutions reviewed. Achieving a very high loan collection rate is a necessary condition for them to become self-sustainable. The success of these three institutions in promoting financial discipline among their borrowers is very likely the prime factor which distinguishes them from the majority of traditional supply-led credit programmes. Maintaining low loan losses is, therefore, imperative to the achievement of self-sustainability. A high collection rate serves as a good proxy for low loan losses, the later being the largest cost factor of formal credit systems, causing rural financial institution's insolvency, illiquidity and increased reliance on state bail-outs. The data below shows the record of these three institutions with respect to their loan collection.

Table 2.3

LOAN COLLECTION AND ARREARS

	BKK	BUD	BAAC
	Due date for final installment	Due date for final installment	Amount not paid on due date
Annual loan collection	80%	95% (estimate)	83% individuals 40-43% for cooperatives
Arrears	20[1]%	5.4%	18%

Note:

1 The rate is high due to old arrears. When excluded the actual current arrears rate would be around 3.8%.

Source: Yaron, Yacob, "Successful Rural Finance Institutions", World Bank Discussion Papers, No. 150, 1992.

Having examined some of their operations which contributed to the success of these three institutions, such as those relating to savings mobilisation, application of market- related interest rates as well as incentives to achieve a good loan collection record, we may attempt an assessment of their performance based on the two prime performance criteria, self-sustainability and out-reach record.

Since subsidy dependence is the inverse of self-sustainability, the subsidy dependence index (SDI) is particularly instrumental in tracking progress made by a rural finance institution in reducing its subsidy dependence overtime. The SDI can be used to monitor progress towards subsidy independence. An SDI of zero means that an institution has achieved self-sustainability. The table shows the SDI of the three subject institutions:

Table 2.4

SUBSIDY DEPENDENCE INDEX

BKK		**BUD**		**BAAC**	
1987	1989	1987	1989	1986	1988
24%	20%	3%	-8%	28%	23%

Source: Yaron, Jacob, "Successful Rural Finance Institutions", World Bank Discussion Papers, No. 150, 1992.

This table indicates that the three institutions differed to a great degree in their respective levels of subsidy dependence, although all of them showed a decline in their individual level of subsidy dependence during the period reviewed.

The SDI of 3 per cent which was achieved by BUD in 1987 meant that BUD depended marginally on subsidies in 1987. BUD improved its subsidy dependence performance in 1989 by achieving an index of -8 per cent. The negative value indicates that BUD was not at all subsidy-dependent by 1989. The speed with which BUD reached a negative level of subsidy dependence may be linked to its ability to build onto the existing BRI system of village-level infrastructure, thereby avoiding large investments often required for start-up operations.

BKK managed to reduce its subsidy dependence index from 24 per cent in 1987 to 20 per cent in 1989. Its loan income as a percentage of outstanding loan portfolio is less than the effective interest rates charged on the most common loans. This is an indication of the need for stepping up loan repayment efforts.

BAAC's subsidy dependence index indicates a moderate degree of subsidy dependence of 28 per cent in 1986 which has been reduced to 23 per cent in 1988. BAAC's dependence on subsidy was probably due to the prevailing country-wide legal ceiling on lending interest rates and the easy access to obligatory deposits of other financial institutions that forced BAAC to stop slightly short of complete subsidy independence in 1988.

The performance of these institutions in terms of different out-reach indicators may be examined in terms of the number of borrowers, the amount of loans outstanding, the volume of savings and trends in the subsidy independence index. It may also be useful to recall the different clients they serve. BKK finances off-farm income-generating activities of the rural poor. BUD and BAAC have directed their efforts to the clientele in the low-to medium-income range. They, however, differ significantly in terms of the delivery mechanism activities, loan repayment pattern, and cost structure. BUD has provided credit and savings facilities to the rural population, while BAAC has confined its credit operations to agricultural producers with far more rigid and standardised procedures regarding loan repayment patterns and activities which are eligible for financing.

The tables that follow indicate the level of out-reach attained by these three institutions as measured by the different indicators.

Table 2.5

KEY OUT-REACH INDICATORS

	BKK	BUD	BAAC
1. No. of borrowers (in millions)	0.51	1.6[1]	2.6
2. Population serviced	1.8% of central Java's population	N.A	25% of farming population
3. Town branches	502	2843	96
4. Village posts/units	2938	835	584

Note:

1 This represents number of loans outstanding for the year 1989. No data on the total number of clients are available.

Table 2.5a

LOAN OUT-REACH

	BKK	BUD	BAAC
1. Volume of loans outstanding	Rp. 23.5 billion ($13 million)	Rp. 845 billion ($478 million)	B.27.5 billion ($1100 million)
2. Average annual assets growth over last three years (in real terms)	15%	36%	4%
3. Average outstanding loans	Rp. 46000 ($26)	Rp. 514000 ($290)	B.14000 ($560)

Table 2.5b

SAVINGS OUT-REACH

	BKK	BUD	BAAC
1. Number of savings accounts (in million)	0.50	6.30	1.68
2. Value of average savings accounts	Rp. 10000 ($6)	Rp. 150000 ($85)	B.6848 ($274)
3. Volume of savings	Rp. 4.7 billion ($2.6 million)	Rp. 953 billion ($539 million)	B.11.5 (billions) ($460 million)

Table 2.5c

TRENDS IN THE SDI AND OUT-REACH

	BKK	**BUD**	**BAAC**
SDI status	moderate	subsidy independent	moderate
SDI trend	improving	improving	improving
Out-reach	serves the poor; number of clients serviced increasing at low rate	serves lower middle income; number of clients serviced increasing at high rate	serves lower middle income; number of clients serviced increasing at low rate

Source: For all 4 Tables, Yaron, Jacob, "Successful Rural Finance Institutions", World Bank Discussion Papers, No. 150, 1992.

From these tables, one can observe that all the three institutions have achieved significant levels of out-reach as regards their branches and village post network. BKK and BAAC have had 85 per cent of their service units at the village level, whereas BUD has offered its services predominantly at the level of town branch, financing non-agricultural activities of medium- and low- income clients, reflecting the fact that BKK and its sister institutions in the other provinces of Indonesia were already firmly entrenched at the village level.

One can also observe that the average outstanding loan size for BUD ($290) and BAAC ($560) were much larger than that of BKK which was only $26. This difference may be found in the types of clients served by these institutions. A similar difference may be noted in the value of savings accounts where BUD ($539 million) and BAAC ($460 million) overwhelmed that of BKK's mere $2.6 million, which indicated the different clients served.

The success stories of Korea and Taiwan, and the success reflected in the performance of the three rural financial institutions reviewed are only part of how financial facilities have fared with regard to their contribution to rural development in the SEACEN countries. There is another aspect to this and this concerns the performance of the rural finance institutions and the financial facilities provided by them.

III. Overall Performance of Rural Finance Institutions Operating in the SEACEN Countries

There has been significant increase in the volume of rural credit extension in the SEACEN countries. This has helped in increasing farm productivity and accerelating growth rates. It is believed that this economic growth would "trickle down" to the poor, resulting in a more equitable distribution of incomes and thus, alleviating poverty. However, the available data would show that income distribution has not improved substantially in many of these countries. In Indonesia, agricultural credits through the Bimas programmes are often considered as credits which favour larger farmers. Small farmers could not have access to this facility due to their limited assets for collaterals. In Malaysia, the gains from the various rural development programmes subsidies and institutional support services seem to be unequally distributed among the various categories of farmers, with the large farmers benefiting more from the various programmes and assistance. In the Philippines, too, small farmers are disfavoured by the rural credit system probably due to lack of conventional collateral. In Thailand, efforts at channeling rural credit availability to farmers has shown some bias in favour of those with more collaterals regarding access to credit and to the disadvantage of those who are poor or landless.

As regards the poor loan repayment records of many rural finance institutions, many reasons come to mind such as the idea among many farmers that loans from the government are nothing more than assistance or grant, and thus resulting recurring defaults as evidenced in Sri Lanka and Indonesia[3]. Low interest rates, combined with inflation and tolerated default underlie the collapse of credit institutions for which evidence may be found in Sri Lanka and Thailand[4].

Many of the institutions established to extend rural credit have become mere credit disbursement windows without developing into self-sustaining rural finance institutions. They have operated in a non-viable manner, ignoring the mobilising of deposits and savings. Inadequate, depressed deposit interest rates, which have resulted from

---

3. Lipton, M., "Agricultural Finance and Rural Credit in Poor Countries", *World Development*, Vol. 4, No. 7, 1976, p. 548.

4. *Ibid.*, p. 548

and co-existed with easy access to cheap funds from state or international donors, have discouraged savings mobilisation. These features are common among most of the state-supported rural finance institutions in the SEACEN countries, and have tended to make these institutions place too much reliance on state funds without promoting savings mobilisation in the rural areas as a means to self-sustainability. By and large, these deficiencies, including the application of inappropriate interest rates, weak mobilisation efforts and the dismal loan collection performance may be observed in Indonesia, Malaysia, the Philippines, Sri Lanka, and Thailand.

To remedy these deficiencies, Indonesia undertook rural credit reforms intended to improve access to bank credit for all types of rural producers. The means of increasing access was to be the profit motive. Thus, with little or no government subsidy in prospect, while savings could only be the main source of loanable funds, the loan interest rate was adjusted. Apart from this, incentives were devised that would encourage the employees to carry out their duties enthusiastically. The loan interest rate of Bank Rakyat Indonesia (BRI), which is mainly concerned with the agricultural and cooperative sector and rural activities, was adjusted. Incentives were also provided to the village unit staff in the form of cash award on the basis of their getting additional credit and savings customers. The results of the reforms show dramatic increases in credit extended and uptrends in savings mobilisation.

The agricultural sector remains an important component of the Malaysian economy despite its declining share in terms of its contribution to the national output. Despite this, a large amount of public expenditure has been earmarked to agriculture and rural development programmes, but the so-called "trickle down" process from public investment may not have reached those in the lower income group. The reason is that the access of small farmers to institutional credit is limited by the following:

- the complexity and formality of procedures in credit programmes.
- the status of small farmers who are landless or are marginal farmers with uneconomic land holdings and cannot, therefore, provide collateral.
- lack of information about government programmes and bank schemes.

Lending to small farmers involved small amounts of credit with an interest ceiling, and entailed a cost for credit appraisal. Rural finance institutions were accordingly reluctant to extend loans to the small farmers. Besides, the inherent risks associated with agriculture has been another factor to deter financing to this sector, besides cash-crop cultivation on "temporary occupied land" or cultivated illegally on railway reserves, road and transmission line reserves.

As regards repayment of rural loans, defaults are rampant. This repayment problem is due in part to the recipients of the loans who consider such loans as subsidies for which they were reluctant to repay or felt not obliged to do so. In part, it is due also to the lack of follow-up by the disbursing agencies. Poor repayment attitudes have been most prevalent among borrowers of small production units in areas where Government subsidies were high.

Malaysia has tried to tackle the above mentioned problems first through financial reform, of which the most notable is the liberalisation of interest rates. This meant doing away with ceilings on lending rates which would enable banks and rural finance institutions to raise their lending rates, to cover the costs of lending and be able to expand their operations areas where expansion has been limited due to the cost factor. As regards the repayment and collateral problems, group lending has been quite affective. The joint liability undertaken by the group has served as alternative for collaterals and a sufficient condition for repayment.

With respect to the problem of reaching the rural poor in areas unreached by the banks, the Agricultural Bank of Malaysia has used agents such as the Local Credit Centres for its lending operations. This provides accessibility for the small farmers beyond the reach of traditional banking facilities. The Agricultural Bank of Malaysia has been setting up more branches and temporary offices in the rural areas to serve the rural folks previously unreached by banking services.

In the future, to expand its financing facilities to the rural areas, the Agricultural Bank of Malaysia may undertake co-financing with the commercial banks. The commercial banks' limited expertise in evaluating the risk involved in extending loans to the rural sector has restrained them from actively participating in rural lending. The Agricultural Bank of Malaysia, on the other hand, has both the expertise and experience with regard to financing these farmers from the rural areas, not to mention its wide network of branches which reach out extensively to the rural poor. However, lack of funds has been one of its constraints in playing a more active role in the financing of the rural areas. Thus, if the Agricultural Bank of Malaysia and the commercial banks could get together and undertake co-financing for the rural folks, the venture could probably contribute much to increasing financial facilities for rural development.

In order to improve the accessibility of credit to the rural sector, credit must be made available to meet different requirements entailing different levels of risks. To reduce the deterrents to extending loans due to these risks, the establishment of an Agricultural Insurance Scheme would be timely. This would cushion against the risk, as well as serve as an assurance to the credit institutions for loan recovery.

Myanmar's performance with regards to the financial facilities provided for rural development could qualify this country for inclusion in the list of success stories, in terms of the increase in the volume of rural credit extended, and in the seasonal loan recovery record. Of course, this is only part of the picture. One needs information to compute out-reach and subsidy dependence index as described in the early part of this Chapter, for which data are not available. One also needs to know how much of the rural credit is being served by the informal sector. In the absence of any such data, one cannot tell just how much is the formal rural credit extended or its ratio to total rural credit demanded.

The Myanmar farmer has not encountered the problems of other SEACEN countries concerning the provision of collateral and repayment of seasonal loans, as the over 90 per cent and often 100 per cent repayment of seasonal loan records indicate. The group liability approach applied by the village banks takes care of the collateral and repayment problems for seasonal loans. We could say this group liability approach has been successfully applied in Myanmar for seasonal loans. There is a need to provide collateral for short- and long-term loans.

The government's interest in promoting rural development is evident from having the Myanma Agricultural and Rural Development Bank incorporate the rural development function among its activities.

Another indication of this concern may be found in the creation of the Ministry for the Development of the Border Areas and National Races in 1992. This Ministry together with the cooperation of other ministries will be devoting much of their efforts to rural development consisting of investment in infrastructure, agriculture and forestry, health and education and livestock activities in the rural areas. The funding of these activities so far has amounted to K500 million from the Ministry for the Development of the Border Areas and National Races and K620 million from the other ministries.

Myanmar has only recently begun applying the principles of a market-oriented economy. In this short time, the financial facilities provided for rural development has shown appreciable progress in terms of the amount of credit extended and the good loan recovery record.

As far as institutional financing of the rural sector is concerned, the state alone is at present undertaking this activity. Private banks have not found interest in extending their operation into this area. As such, there is no need for the Central Bank to issue guidelines for the operation of private banks regarding rural financing, though it is empowered to do so. There is also no need to administer interest rate to serve policy needs concerning credit to the rural areas.

It would be difficult, in the absence of data, to assess the extent of the informal sector's role in supplying the credit needs of the rural folks. One is thus unable to make a meaningful evaluation of the state's contribution to the total needs of the rural sector with reference to rural development. However, one can say that the Myanmar government has made good progress. It is moving in the right direction with regards to the existing financing facilities for rural development and ahead, this momentum could be maintained as an essential support for the country's continued economic progress.

It may be recalled that in Chapter 1 it was mentioned that commercial banks in Nepal were channeling credit to small farmers through the Intensive Banking Programme while the Agricultural Development Bank (ADB/N) does so through the Small Farmer Development Programme. In order that the implementation of these programmes may be effective, the Lead Bank Scheme was introduced to undertake the coordination aspects of implementing these programmes, such as the establishment of coordination between banks and the other development agencies in planning, implementation and monitoring. The lead banks also coordinate with government offices to forward the necessary services and credit in a joint effort. The commercial banks have extended their network of branches into the rural areas. As a result, they managed to provide loans whose volume has surpassed that of the Agricultural Development Bank.

The government's concern for promoting rural development is very visible in the financing facilities being provided in a subsidised form. It has even been said that small farmers are unwilling to take institutional loans unless extended with a concessionary rate of interest. For specific projects such as, vegetables, livestock, fruit culture, irrigation and bio-gas, interest rates up to 5-7 percent are subsidised by the government, while capital subsidy on irrigation and bio-gas is up to 25-50 percent. Interest charged for these projects does not fully cover administrative costs. Aside from these subsidised loans, a livestock insurance facility through a credit guarantee cooperation which was started in 1988, is intended to help in covering the risk factor on livestock activities. The Credit Guarantee Corporation established way back in 1975 was intended to provide a guarantee-cum-risk fund to the lending agencies.

The above efforts which could be considered impressive for a small country have shown positive results in terms of the volume of credit provided. In terms of this increased volume of credit reaching the small farmers, Nepal joins the countries whose small farmers have not been reached by rural credit institutions. The Nepalese small farmer also faces the same problems as his counterpart in the other SEACEN countries: the lack of collateral, and the inability to repay loans. The Intensive Banking Programme and the Small Farmer Development Programme provide credit on a group guarantee basis and should therefore be helpful in dealing with the problems of lack of collateral and loan repayment default.

Another problem characteristic of the small farmer in seeking bank credit is his lack of information on how banks operate such that the formalities and procedures tend to discourage him from seeking bank credit. It would go a long way in helping small farmers applying for loans to simplify application forms as well as the loan approval procedures.

To increase the supply of credit to agriculture, the Philippine government used the rediscounting policy of the Central Bank and imposed regulatory schemes on banks to force allocation of credit resources to agriculture. When these policy failed to produce the desired results, the government saw the need to liberalise the financial system by placing more reliance on the market mechanism in the allocation of financial resources. Interest rates were fully deregulated, and the Central Bank's subsidised rediscounting facility was discontinued. As credit subsidies were withdrawn, the government refrained from direct farm financing and advocated that only banks or financial institutions deliver rural credit at market-oriented interest rates.

All these efforts represent a departure from the traditional approach of providing credit to the small farmer/fisherman through subsidised credit, concessional lending terms, and heavy government intervention in the financial system. The present thrust now involves major changes not only in the financial aspects, but in the entire support service delivery system for the rural sector. It may be observed that the problems involving small farmers and their access to credit and other financial services at reasonable terms do not stop with the adoption of a market-oriented credit policy nor with the devolution of the lending responsibility to the banks and financial institutions and the emphasis on savings mobilisation. There is no certainty that small farmers will gain access to bank credit while in transition towards a truly liberalised sector.

While the reform is geared towards the attainment of permanent and long-term goals, the government has also formulated short-term strategies to continue the flow of credit to agriculture while the Philippines' rural financial system is in a period of transition. The short-term strategies involve (1) increasing net loanable funds of financial institutions through domestic savings mobilisation (2) encouraging financial institutions to lend to agriculture through loan guarantees and crop insurance and (3) working for the empowerment of farmers and fisher folk by encouraging the formation of their own banks for group lending.

In Sri Lanka, the impressive island-wide network of rural credit institutions has not had a major impact in providing credit to the rural sector. Nor has it matched the expectations of the rural borrowers who generally wish to borrow without collateral. In such type of lending, the collateral issue has become one of the major dilemmas for both the borrowers and the credit institutions. In Sri Lanka, where ownership of land is limited and the type of credit worthy guarantors acceptable to the banks being few in the rural areas, the non-availability of suitable collateral has become one of the major constraints in rural lending. Another problem is the poor loan repayment record. These problems are being tackled through the group-lending approach. Under certain schemes, with the group-lending approach, two guarantors are required, whereas under other schemes credit is provided on a group basis on the joint and several responsibility of the members of the borrowing groups for the repayment of the advance. This innovative approach is expected to attend to the collateral and default problems. The Central Bank's refinancing rates are to be adjusted closer to market levels. The most important innovation has been to replace traditional collateral requirements with group liability. This is considered a major breakthrough in providing credit in the rural sector.

Thailand also puts emphasis on the need to ensure the availability and sufficiency of credit to the rural sector. Despite the efforts of the government to realise these goals through the BAAC, the commercial banks and the Government Savings Bank, remote areas which have high population of small farmers have not been reached (as they are not economically viable to these institutions). The BAAC has been successful in only one segment of the credit market, namely for the short-term capital loans. But despite repeated attempts, the BAAC remains unsuccessful in expanding its scope of activities. Even in its activity involving the extension of traditional working capital loans, it has been reluctant to expand its clientele to the less monetised farmers or those in riskier areas. As BAAC is to a large extent funded by the state, initially there was no strong incentive for mobilising deposits. As in other countries, the group lending method is also being employed in Thailand. As a mechanism to reduce cost in lending to individuals and as a measure to ensure collective security in the absence of satisfactory collateral on the part of individuals, the promotion of group lending has been a major achievement of the BAAC. It has managed to obtain repayment rates of 82 per cent through lending to individuals with mandatory joint liabilities.

In Chapter 1, it was pointed out that commercial banks are required to maintain rural lending equal to at least 20 per cent of their deposits, or to deposit any shortfall with the BAAC for lending. In 1991, the central bank broadened the definition of "rural lending" to include lending for small-scale industries in rural areas, wholesale trade in agricultural products, and farmers' secondary occupation. Commercial banks have not been able to meet the 20 per cent requirement mentioned above and had to place the shortfall as deposits with the BAAC. With the broadening of the definition of "rural lending", commercial banks have managed to meet the required rural lending ratio for the first time in 1992 and as a result, the deposits with the BAAC have declined. In line with this move, the BAAC charter was amended in 1992 to expand the scope of its lending to agriculture-related activities and to remove the ceiling on its capital. The central bank has deregulated interest rates, which meant abolishing controls on interest rates. Ceilings on deposit rates were phased out during 1989-1991 and ceilings on banks' lending rates were removed in June 1992. To the extent that these measures result in improving the mobilisation of funds, they would mean more loanable funds, including loans to the rural sector.

The removal of ceilings on commercial banks lending rates is bound to have a profound impact on the lending operations of commercial banks. The ceilings meant that certain essential costs such as administrative costs, costs on capital, allowance for defaults and inflation may not be covered. Thus, ceilings tended to deter banks from expending their lending activities, and their removal would have the opposite effect, that of expanding lending operations, including lending to the rural sector.

The limitations imposed on the BAAC's lending rates, as they are below that of commercial banks, have created distortions in the commercial credit sector. It has managed to operate profitably only because of its indirect subsidies. If BAAC was allowed to charge the rates commercial banks do, it would not need the tax exemption and most of the subsidies that have been provided to it. So, the removal of ceilings on banks' lending rates will also be benefitting the BAAC as well as enable it to expand the coverage of its clients.

Another weakness of the rural financial institutions in Thailand involves their ability to obtain information about borrowers. This is a function in which the informal sector excels over the formal sector. The formal sector does not appear to have the transaction technology to be able to process the general credit needs of the rural households.

The role of the informal lenders as gatherers of information has not been undermined by the massive injection of funds into the rural sector of Thailand. In fact, the lack of sufficient information about borrowers is a common weakness among other SEACEN rural finance institutions.

Poverty alleviation as an integral part of rural development is being taken care of in most of the SEACEN countries through greater public investment in the development of human capital, which is expected to provide better health facilities and improved and wider educational facilities. The efficacy of education as an instrument for reducing poverty may be seen from the experiences of Malaysia and Indonesia. In both cases, economic growth made a substantial contribution, but increased schooling played a vital part. Nearly 60 per cent of the Indonesian population was impoverished in 1970. By 1987, this had fallen to 22 per cent. The decline in poverty in Malaysia was comparable in magnitude. Both countries have increased spending on education. Health services have been expanded in both countries. In Sri Lanka, large investments were also made on basic infrastructure for educational and health services; while Korea strengthened its public health care facilities in the rural areas and undertook education subsidy programmes for the rural folks. In Thailand, the government has provided better health care services for the poor in rural areas. In Myanmar, government employees serving in the remote areas are provided incentives to serve there by way of special allowances, and these include the employees in the educational and health services.

Chapter 3

MAJOR FINDINGS AND CONCLUDING REMARKS

Over the past three decades, we witnessed an enormous increase in the volume of credit extended for rural development in selected SEACEN countries. The commitment of the various governments to the promotion of financing rural areas was responsible, in no small way, to achieving this result. The expansion of rural credit in most SEACEN countries has been accompanied by high default rates in loan repayments and failure of institutional rural loans in reaching the small farmers.

A major feature in most of the state-sponsored rural finance institutions in the SEACEN countries is that they have been functioning like philanthropic institutions and lending at subsidised interest rates. They do not truly "finance" their own operations by borrowing loanable funds for their own account at market interest rates and seeking at least a break-even rate of repayment. Because most of these institutions have access to concessionary discount lines from central banks, they have no strong incentives for mobilising voluntary deposits. They find it easier and cheaper to take large loans from the central bank than to undertake the difficult task of securing small amounts of funds through a large number of private deposits.

I. Rural Credit Reform in the SEACEN Countries

As these problems became more evident, most of the SEACEN countries responded by undertaking rural credit reforms to resolve these problems. The reforms in most of the SEACEN countries took the form of liberalising the financial markets such as deregulating interest rates and eliminating the credit subsidies provided by the rediscounting window of the central bank as in the Philippines. In Indonesia, banks were freed from quantitative restrictions on lending and permitted them to set their own interest rates charged on loans and those they paid on deposits. As part of its financial reform, Malaysia liberalised its interest rates, with a view to mobilising savings. In Sri Lanka, the central bank's refinancing interest rates were raised and the selective ceiling on commercial bank credit was eliminated. In line with the financial reform in other SEACEN countries, Thailand likewise abolished controls on interest rates, phasing out ceilings on deposit rates and removing ceilings on bank's lending rates.

In fact, the various measures at liberalising financial markets that have been undertaken, as in the above, should have been done so much earlier since the financial viability of rural finance institutions, like other similar institutions, is very closely linked to interest rate policies. Market-related interest rates have contributed towards successful savings mobilisation, as may be seen in Korea and Taiwan.

There are many advantages from a successful savings mobilisation. Besides the obvious benefits to the depositors, it can strengthen the financial intermediaries and reduce the dependence on government and donors, diminishing political interference, and can induce financial institutions to be more responsive to the local market. The other advantage from successful savings mobilisation is the reduction of financial institutions' reliance on outside funds. This means that institutions would naturally be inclined to safeguard their own funds and strengthen enforcement on loan repayments, whereas the opposite would apply when reliance is placed on outside funds. When a group relies extensively on members' savings as the source of their loanable funds, there is a tendency for a better loan recovery performance, for which examples may be found in Korea and Taiwan. So one can see from actual developments that the restrictions on interest rates tended to deter savings and deposits mobilisation, with institutions continuing to rely on outside funds and thus, are unable to achieve a good repayment record. The financial liberalisation, thus undertaken by the SEACEN countries must be considered as moving in the right direction in helping to bring about a more efficient functioning of the rural financial markets which has been distorted by past policies that adversely affected the flow of credit.

The small farmers with no collateral and living in far-flung rural areas, not reached by banks, naturally have had very limited access to formal rural credit. To attend to these problems, group lending has been introduced where joint liability would substitute for collateral. BKK of Indonesia extends loans without collateral, but uses character references exclusively. BAAC of Thailand uses the joint liability mechanism for its short-term loans, but collaterals are required for individual loans amounting to more than U.S. dollar 2400.

II. Cooperatives and Credit Groups

In the past few decades, a portion of the formal rural credit has gone to cooperatives and other groups. Group lending is now widely used in most of the SEACEN countries. The advantages provided by the cooperatives and credit groups may be found in the reduction of loan transaction costs and reduction in the risk of loan default on account of going by the common practice of joint liability. Group borrowing enables small farmers to gain access to credit where they are discriminated against as individual borrowers. It may be pointed out that credit groups can play a crucial rôle in mobilising rural savings with great possibility for better loan recovery performance, for which precedence has been achieved in Korea and Taiwan.

Cooperatives have been extensively used to channel credit to the farmers in the SEACEN countries. The performance of most of them has fallen short of expectations with the exception of Korea and Taiwan. The reason for the unsatisfactory results may be due to the fact that the formation of most of these cooperatives was imposed from above (top-bottom). In the case of cooperatives formed in response to the felt needs of the members and through their own initiative (bottom-up) with little government interference, there is a greater prospect for success. Again, one can see that the initiation by members of cooperatives in Korea may be cited as a key factor of success. There are, of course, other contributory factors to the success of cooperatives in Korea, such as the emphasis on proper accounting, record keeping, and educational training of managers, as well as appropriate organisational and social forms and rules of conduct.

Some form of joint liability figures prominently in many of the successful rural credit programmes. The Bank for Agriculture and Agricultural Cooperatives (BAAC) of Thailand, which operates a programme lending to individuals with mandatory joint liability, has obtained repayment rates of 82 per cent which compares favourably to the average of 62 per cent repayment rates for comparable loans with just individual liability.

As regards the problems of credit not reaching the small farmers, due to the remoteness of their respective areas, considerable efforts have been made, such as mobile banking wherein the bank staff would visit different villages each day to conduct lending and collection operations as done by Badan Kredit Kecamatan (BKK) of Indonesia. The BAAC of Thailand members also regularly visit the self-help groups that supply the joint liability to individual loans. In Nepal, the Small Farmer Development Project under the Agricultural Development Bank and the Intensive Banking Programme are aimed at making credit more accessible to the rural poor. In the Philippines, the Development Assistance Programme for Cooperatives and Peoples' Organisation (DAPCOPO) is a programme designed to address the credit needs of small farmers and one of its objectives is to develop and strengthen viable rural community-based organisation that shall perform and facilitate credit delivery in the countryside. In Sri Lanka, the Praia Naya Niyamake (PNN) Scheme launched in the latter part of 1988 is an approach intended for credit to reach the poor. The basic objectives of the scheme are to provide credit to small farmers on easy terms and to extend facilities to areas which are inaccessible to formal credit institutions.

III. Informal Rural Credit

The governments of SEACEN countries have succeeded in helping expand rural credit in the past decade. Despite the creditable expansion in formal rural credit, the failure of a good part of this expansion reaching the small farmers has been a source of concern. This growth in formal rural credit has also failed, as intended, to drive the informal lenders out of the market. In fact, they continue to engage in profitable business. The share of informal rural credit in total rural credit in the SEACEN countries ranges from 40 to 75 per cent[1]. This is a clear indication that in spite of the progress achieved by the formal sector at increasing the volume of rural credit extended, it has not been able to satisfy the total demand for rural credit, and that it has to be supplemented to a large extent by the informal sector. It is not that the formal sector lacks adequate financial resources, but what it lacks are those features that the informal sector has and are being applied with such success that the informal sector continues to retain an important place in financing the rural sector. These features include the much shorter processing time, better screening techniques, better enforcement devices, better assessment of creditworthiness, and ability to exert social pressure for repayment, which have been responsible in a big way for the success of the informal sector in dispensing credit to the rural folks. We may also find that some of the reasons for an inability by the formal sector to dislodge the informal sector from the market may be found in these features.

---

1. Gate, P.B., "Interaction between the Formal and Informal Financial Sector: The Asian Experience", *World Development Review,* Vol. 20, No. 6, 1992.

Traditionally, it was viewed that because of the "usurious interest rates" charged by the informal sector, this sector was considered undesirable and should be removed from the forefront of rural financing. The massive amount of rural credit extended by the formal sector has, however, failed to reduce the importance of the informal sector's rural financing activities. The idea that the informal sector is undesirable and should be replaced appears to be changing. Features characteristic of the informal sector such as shorter processing time, better assessment of creditworthiness and better repayment records are worth emulation. These are features that the formal sector sorely needs in abundance. The opinion now is that informal finance constitutes an important part of rural finance and is likely to continue to grow in absolute terms, although its share in total finance may decline. Rather than pushing informal finance out of the market, there is now a linkage of formal and informal finance in extending loans to the rural sector, which may be found in most of the SEACEN countries where credit is being extended by the bank to approved lending agents for on-lending to their customers. In other words, the informal sector instead of being pushed out of the market, has now become a useful partner of the formal sector, and its services are being enlisted to bring greater efficiency in the delivery and recovery of rural loans.

IV. External Financing Facilities for Rural Development

External financing facilities constitute an indispensable component in rural development in the SEACEN countries. The sparse data collected in this study do not do justice to show just how much their contribution means to rural development. We may view the importance of external financing facilities for rural development in terms of the relief realised from the budgetary strain that would otherwise have resulted in the absence of such financing. In fact, some of the rural development projects funded from external sources have been of a magnitude that recipient country would have not been able to undertake alone with its own resources, not to mention the savings on foreign exchange reserves.

As we have been very much concerned with credit for rural development in this study, we should not be carried away into thinking that credit is the most binding limitation to rural development. Provisions for other farm inputs, marketing and pricing policies play essentially useful roles in contributing towards success in rural development as may be seen in the case of Korea. It is essential that these other policies are integrated and blend with the overall strategy to be supportive of one another because credit by itself can be a weak instrument for promoting rural development in the face of distortions and constraints that could result if the application of appropriate policies relating to the other inputs is not forthcoming.

The success of Korea's rural financing so often cited in this study is undoubtedly inspiring; but, it must be said that there is no guarantee that applying Korea's recipe would produce identical results. As each of the SEACEN countries has different resource endowments, without the same socio-economic characteristics and level of economic development, no single strategy could be prescribed to serve the promotion of rural development in the SEACEN countries. Each country should develop its own financing facilities to suit its own rural development based on research and study of its factor endowments and experience.

In looking back on what has been achieved by the financing facilities in promoting rural development, the failure of the increased rural loans reaching the small farmers, and the poor loan repayment record appear to indicate that the efforts of rural finance institutions have not measured up to expectations. These developments should not, however, be considered as one of failure on the part of these institutions in promoting rural development. The pertinent question whose answer could help in determining the effectiveness of these promotion efforts is not so much whether these efforts have been able to achieve the intended goals, but whether the situation could have worsened had there been no such promotional effort. The available evidence points rather convincingly to the fact that had there been no such financing facilities, the rural scene in most of the SEACEN countries could undoubtedly have presented a rather dismal picture.

Rural development is more than the physical development of rural areas. It is also the social and institutional development of the rural population. It is more than agricultural development. It involves improving the quality of life in the rural areas. Poverty alleviation and provision of improved health services and better educational facilities are therefore integral parts of rural development. It is a credit to the SEACEN countries that this social development aspect of rural development has not been neglected in their efforts at improving the socio-economic well-being of the rural population.

Selected Bibliography

1. Adams, Dale W., et. al, "Undermining Rural Development with Cheap Credit", *Westview Special Studies in Social, Political, and Economic Development,* Boulder, Colorado, 1984.

2. Adams, Dale W. and V. Nazarea-Sandoval., "Informal Finance in a Semi-Rural Area of the Philippines", *Savings and Development,* Finafrica Quarterly Review, No. 2, 1992-XVI, Milan, Italy.

3. Agricultural Credit Department, Bangladesh Bank, Dacca, *Problems and Issues of Agricultural Credit and Rural Finance,* Deliberations of the International Workshop on Providing Financial Services to the Rural Poor, Dacca, 23-25 October 1978.

4. Ahluwalia, Montek S., "Policies for Poverty Alleviation", *Asian Development Review,* ADB, Vol. 8, No. 1, 1990.

5. Asian and Pacific Regional Agricultural Credit Association, APRACA No. 6, *Agriculture Credit Policies and Programmes for Small Farmer Development in Asia and Pacific Countries: Country Profiles 1980 and Success Stories,* Bangkok, Thailand, February 1981.

6. Asian and Pacific Regional Agricultural Credit Association, *Promotion of Linkages Between Banks and Self-Help Groups in Nepal,* APRACA SHG-2, Bangkok, Thailand, April 1990.

7. Balisacan, Arsenio M., "Rural Poverty in the Philippines: Incidence, Determinants and Policies", *Asian Development Review,* ADB, Vol. 10, No. 1, 1992.

8. Bathrick, David D., "Agricultural Credit for Small Farm Develop ment: Policies and Practices", *Westview Special Studies in Social, Political, and Economic Development,* Boulder, Colorado, 1981.

9. Bautista, Ernesto D., "The Impact and Cost of Philippine Agricultural Credit Risk Guarantee Schemes", *Savings and Development,* Finafrica, Quarterly Review, No. 2, 1992-XVI, Milan Italy.

10. Binswanger, Hans and Shahidur Khandker., *The Impact of Formal Finance on the Rural Economy of India,* Agricultural and Rural Development Department, The World Bank, August 1992.

11. Blackwood, Julian., "World Bank Experience with Rural Development", *Finance and Development,* A Quarterly Publication of the IMF and the World Bank, December 1988.

12. Braverman, Avishay and J. Luis Guasch., *Rural Credit in Developing Countries,* The Agricultural and Rural Development Department, The World Bank, June 1989.

13. Burkett, Paul., "Group Lending Programs and Rural Finance in Developing Countries", *Savings and Development,* Finafrica Quarterly Review, No. 4, 1989-XII, Milan, Italy.

14. Burki, Shahid J., "Development Strategies for Poverty Alleviation", *Asian Development Review,* ADB, Vol. 8, No. 1, 1990.

15. Choubey, B. N., *Institutional Finance for Agricultural Development,* March 1977.

16. Chung, Ki-Whan and Nae-Won Oh., "Rural Poverty in the Republic of Korea: Trends and Policy Issues", *Asian Development Review,* ADB, Vol. 10, No. 1, pp. 91-124, 1992.

17. Deboeck, Guido and Ronald Ng., *Monitoring Rural Development in East Asia,* World Bank Staff Working Paper No. 439, October 1980.

18. D'Silva, Emmanuel and Kaye Bysouth., *Poverty Alleviation through Agricultural Projects,* An EDI Policy Seminar Report No. 30, The World bank, 1992.

19. Food and Agriculture Organization of the United Nations, *Central Banks, Agricultural Credit and Rural Development,* Rome, April 1980.

20. Ghate, P. B., "Interaction Between the Formal and Informal Financial Sectors: The Asian Experience", *World Development Review,* Vol. 20, No. 6, pp. 859-872, 1992.

21. Gunatilleke, Godfrey, et. al., "Rural Poverty in Sri Lanka: Priority Issues and Policy Measures", *Asian Development Review,* ADB, Vol. 10, No. 1, pp. 164-198, 1992.

22. James, William E., *Credit Rationing, Rural Savings and Financial Policy in Developing Countries,* ADB Economic Staff Paper No. 13, 1982.

23. Jha, Satish C., "Rural Development in Asia: Issues and Perspectives", *Asian Development Review,* ADB, Vol. 5, No. 1, 1987.

24. Koch, Eckart, *Project Linking Banks and Self-Help Groups (PHBK),* Strategy Paper, No. 6, Bank Indonesia, October 1992.

25. Krongkaew, Medhi, et. al., "Rural Poverty in Thailand: Policy Issues and Responses", *Asian Development Review,* ADB, Vol. 10, No. 1, pp. 199-225, 1992.

26. Kropp, E., et. al., *Linking Self-Help Groups and Banks in Developing Countries,* APRACA, Bangkok and GTZ, FRG, 1989.

27. Llanto, Gilberto M., "Rural Credit Policy: Do We Need to Target?", *Savings and Development,* Finafrica Quarterly Review, No. 2, 1988-XII, Milan, Italy.

28. Llanto, Gilberto M., "Innovations in the Philippines Rural Finance System in the 1990s", *Borneo Review,* 2 (1), Journal of the Institute for Development Studies (Sabah), June 1991.

29. Lipton, Michael, "Agricultural Finance and Rural Credit in Poor Countries", *World Development,* Vol. 4, No. 7, 1976.

30. Malhotra, R. N., *The Role of Banking in Rural Development,* Reserve Bank of India, October 1986.

31. Meyer, Richard L., *Rural Finance Research: Priorities, Dissemination, and Policy Impact,* Economics and Sociology Occasional Paper No. 1797, The Ohio State University, January 1991.

32. Mizoguchi, Toshiyuki, "Socioeconomic Characteristics of Poverty: Macro and Micro Aspects", *Asian Development Review,* ADB, Vol. 8, No. 1, 1990.

33. Morepaya, R. B., *Integrated Rural Development: Sri Lanka,* Centre on Integrated Rural Development for Asia and Pacific (CIRDAP), Bangladesh, 1989.

34. Mubyarto and Loekman Soetrisno, *Integrated Rural Development: Indonesia,* Centre on Integrated Rural Development for Asia and Pacific (CIRDAP), Bangladesh, 1989.

35. Mussa-Nda, Ngumbu., "Rural Development Challenge for the 1990s: A Greater Role for Local Development Strategies", *Regional Development Dialogue,* Vol. 9, No. 2, Summer 1988, Nagoya, Japan.

36. Oshima, Harry T., "Employment Generation: The Long-Term Solution to Poverty", *Asian Development Review,* ADB, Vol. 8, No. 1, 1990.

37. Quibria, M. G., "Understanding Poverty: An Introduction to Conceptual and Measurement Issues", *Asian Development Review,* ADB, Vol. 9, No. 2, 1991.

38. Quiñones, B. R. Jr., ed., *Group Lending Approach to Rural Finance in Asia,* APRACA Publications, Bangkok, Thailand, 1992.

39. Sathirakul, Kamchorn., *The Role of Financial Institutions in Rural Development: The Thai Experience,* Occasional Papers No. 16, Central Bank of Sri Lanka, 1987.

40. Saxena, A.P., *Monitoring Rural Development Projects: Some Issues in Methodology and System Design,* United Nations, Asian and Pacific Development Administration Centre, Kuala Lumpur, 1979.

41. Schaefer-Kehnert, Walter and John D. Von Pischke., *Agricultural Credit Policy in Developing Countries,* World Bank Reprint Series No. 280, 1982.

42. Seibel, H.D and B.P. Shrestha, "Dhikuti: The Small Businessman's Informal Self-Help Bank in Nepal", *Saving and Development,* Finafrica Quarterly Review, No. 2-1988-XII.

43. Siwar, Chamhuri and Nik Hashim Mustapha, *Integrated Rural Development: Malaysia,* Centre on Integrated Rural Development for Asia and Pacific (CIRDAP), Bangladesh, 1989.

44. Srinivasan, Aruna and Richard L. Meyer., *Scale and Scope Economies in Rural Banking: Evidence From Bangladesh,* Economics and Sociology Occasional Paper No. 1480, The Ohio State University, August 1988.

45. Standen, B.J., "Rural Credit Policy and Bank Rural Lending", *Australian Journal of Agricultural Economics,* Vol. 22, No. 1, April 1978.

46. Thingalaya, N. K., *Rural Savings Mobilisation and Rural Credit: Syndicate Bank's Experiences,* Paper presented at the SEACEN Workshop held on 22-24, 1978 at The SEACEN Centre, Malaysia.

47. Tjondronegoro, S. M. P., et. al., "Rural Poverty in Indonesia: Trends, Issues and Policies", *Asian Development Review,* ADB, Vol. 10, No. 1, pp. 67-90, 1992.

48. Vuthimedhi, Yuwat, *Integrated Rural Development: Thailand,* Centre on Integrated Rural Development for Asia and Pacific (CIRDAP), Bangladesh, 1989.

49. Wallis, Nicholas J. A., *Rural Finance: An Introduction to Agricultural Credit Policies and Issues,* EDI Training Materials, the World Bank, January 1985.

50. Waterson, Albert, "A Viable Model for Rural Development", *Development Digest,* Vol. 13 (3), July 1975.

51. World Bank Staff, "World Bank Policy on Rural Development", *Development Digest,* Vol. 13(3), July 1975.

52. The World Bank, *Agricultural Credit,* World Bank Paper - Rural Development Series, August 1974.

53. Yaron, Jacob., *Successful Rural Finance Institutions,* World Bank Discussion Papers No. 150, 1992.