Rural Credit Market Operations in Nepal : The Case of Palpa District*

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Abstract

Rural credit markets, whether formal or informal, play a pivotal role in transforming the rural economy through financialisation of savings and augumentation, on of production, employment, income and productivity levels. Coverage of informal credit agencies predominate the rural credit market in Nepal. Accessibility, acquaintanceship and flexibility in credit transactions of informal credit agency as compared to various formalities and regidities of the formal or banking institutions have led the users to the informal sector in rural areas. Flexibility in terms of loan delivery, repayments and rescheduling in the informal credit market have added charms among credit recipients. Tapping of strength and potentials of the rural informal credit market becomes instrumental in the process of devising a sustainable and credit strengthening system in the rural economy. However, a legislation encouraging and regulating the operations of financial intermediation is the need of the hour.

Background

In Nepal, almost 90 percent people live in rural areas and 80 percent economically active population has agriculture as its primary occupation. Realizing such prominence of the rural economy in the overall economic structure of the country, the government has been effortful to extend the frontier of the banking and financial system through the establishment of a large network of commercial bank branches along with the setting-up of rural development banks over the years. In order to develop institutions and mechanisms

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aimed at addressing the prioritized rural credit needs, a number of schemes like the intensive banking program, cottage and small industries program, lead bank scheme, small farmers' development program, deprived sector credit, banking with the poor, production credit for rural women, credit for educated unemployed, etc. have been launched. The rural development banks which are established in all the five development regions have become important instruments for providing rural credit needs by mobilizing the participation of the deprived rural women. A number of NGOs and cooperatives have also come into operation to mobilize saving and extend credit also in the rural areas in the recent years. Despite such government participation and encouragement in strengthening the rural credit system, the formal financial structure has not yet succeeded in penetrating the ranks of the average household in the rural Nepal. This has resulted in the excessive dependence of the households on the informal markets for meeting the credit needs for production, consumption, social, and other purposes.

The formal markets thus comprise commercial banks, development banks, regional rural development banks, finance companies, cooperatives, and NGOs which operate in the credit market on the basis of the rules and regulations of the government and the central bank. Their activities are monitored, inspected, and supervised as they have to conform with the norms, requirements, conditionalities, and other provisions specified by the controlling or regulating authority. However, the operations and activities of the informal markets remain outside the purview of the regulating authority as these markets do not form part of the formal institutional arrangement of the financial system. So, the conditionalities and parameters with respect to equity, loans and assets, liquidity, prudential norms, disclosure and reporting requirements, etc. do not apply to these informal institutions since they are not registered with the regulating authority.

Although the informal credit markets are outside the regulatory framework, these markets function as any other formal market. The market participants are the suppliers (lenders) and demanders (borrowers) of the credit, with the price of the credit determined by the interest rates. The informal lenders operating in the rural areas could be categorized as landlords, shop-keepers and merchants, farmer-lenders, goldsmiths, pawn-brokers, friends and relatives, employed people, foreign returnees, urban-based money lenders, and similar other lenders. They could also be classified under group-type as semi-formal (certain NGOs) and informal (self-help groups, like 'Dhikutis'). Similarly, the borrowers could be the landless laborers, marginal-small-medium farmers, small entrepreneurs, local shop-keepers, agricultural traders, etc. Rural credit markets, whether formal or informal, play a pivotal role in transforming the rural economy through financialization of savings and augmentation of production, employment, income, and productivity levels.

According to a study of the Nepal Rastra Bank, only 8 percent of the rural households have had access to the formal finance whereas 34 percent households meet their credit needs through recourse to the informal financial system. It is estimated that only around 30 percent of the total credit needs have been fulfilled by the formal system which means that the rest 70 percent is met through the informal system. All this explains the overriding importance of the informal financial markets in improving the production and growth potential of the rural sector as well as fulfilling the socio-cultural-consumption needs not met by the formal system.

The above indicators point out the fact that the economic and financial development process in the country has not yet been able to transform and modernize the credit system in the rural areas. But, as noted earlier, the credit system has significant impact on the development process. So, it would be quite a useful exercise to make an attempt to understand the underlying features and strengths of the credit system which is in continued operation in the rural areas. Such a study would help to formalize the finer mechanisms and inherent capabilities of the rural credit system so that the credit delivery process in the rural sector is made more effective and efficient. It is in this overall frame of reference that an attempt is made here to understand the nature, working mechanisms, and other characteristics of the informal rural credit on the basis of a study of the financial markets of the Palpa district.

Selection of VDCs and Respondents

In order to make studies on the informal rural credit market in the Palpa district, the following 13 VDCs (village development committees) were selected on the basis of their importance and uniqueness in the financial system of the district:

a.	Bhairavsthan	b.	Darlamdanda	c.	Harthok
d.	Hungi	e.	Madanpokhara	f.	Mainadi
g.	Maleng	h.	Masyam	i.	Nayar
j.	Pokharathok	k.	Namtalesh	l.	Rupse
m.	Tahoon				

Regarding the sample size, altogether 120 respondents from the district comprising lenders, borrowers, and non-borrowers were interviewed so as to obtain information on the working of the rural informal credit market. Priority was given to interview as many money lenders as possible as it was believed that the lenders would be more useful for providing relevant information about the operations of the system. Of the total 120 respondents, the categorization of the respondents was as follows:

Category	Number
Lenders	90
Borrowers	20
Non-borrowers	10
Total	120

Although priority was given to approach the lender for the purpose of the study, it was regarded essential to interview the borrowers and non-borrowers also with the premise that these respondents could provide information which the lender could possibly miss or would not be in a position to make available in the pursuit of our understanding of the rural credit mechanism.

Findings of the Study

On the basis of the study, the following have been observed as the operating characteristics, strengths, and other underlying features of the informal rural credit system in Palpa:

1. Purposes of Lending

As mentioned above, the informal money lenders in the rural areas mostly cater to the credit needs/purposes unmet by the institutional sector. Of the total number of purposes as specified by the respondents, loans for productive activities and the creation of assets like land purchase and house construction predominate other purposes. To be specific, 52 percent specified their purposes as purchases of land, buffaloes and oxen, and trading, house construction, and expenses related to seeking foreign employment. Purposes for social and consumption needs as mentioned by the respondents accounted 44 percent. Only 4 percent of the borrowing was for the purpose of the repayment of previous loans.

2. Types of Lenders

There are no professionally-designated money lenders like the financial institutions in the informal credit market of the rural areas. Those who lend are occasional petty lenders. The lenders are large or medium farmers, relatives, friends and acquaintances who have some cash balance to lend. The amount of transaction is not large and the same person who is lending may borrow again when he is in need of cash.

Most of the lenders had started their lending operations traditionally. Some have gone into this operation in their own life, particularly in the case of pensioners from the British and the Indian army. In a locality, there are, on an average, eight lenders and their number ranges from two to twenty. Their lending operations are almost similar in accordance with the type of lending.

Regarding the number of borrowers covered by a lender, the most prevalent common size is nine borrowers. However, two of the money lenders have lent to 70 to 75 borrowers each. In the case of local trader/shop-keeper, the number of borrowers was 30 to 35 in one case, 150 in another, and 150 to 200 in the third. The lowest number of borrowers of a money lender was two. The borrowers of the shop-keepers are clients-in-kind. The trader also avails of such kind credit facility from the wholesaler mostly stationed in the urban areas.

Due to lack of sufficient information about the creditworthiness of the probable borrowers and also the difficulty perceived in recovering the amount, some people with surplus fund contact the local petty traders who make lending activities on behalf of such people. The traders do not charge any commission because of the existing social relationships. As per discussion with some informed people, it was known that the first lender's money is relent by the borrower (second lender) in some instances. Some lenders who have had easy access to the intensive banking program (IBP)/small farmers' development program (SFDP) have also supplemented their resources by borrowing from such programs.

3. Size and Duration of Loans

Normally, informal sector's transactions are of one-year maturity. But there is no rigidity in the maturity period. The transactions could mature within few days to one, two or more months up to one year as per the loan size, urgency of fund required, type of contract (verbal or written), and borrower's requirement. The maturity could be shortened or extended in accordance with the understanding between the borrower and the lender. If the interest is paid in time, the maturity could be extended for next 3-4 years and even up to 10 years, the deadline for *'Kapali Tamsuk'* (promisory note). Generally, the verbal loans are of short-term duration. If the lender is in short of cash, he also approaches the borrower for repayment before the maturity date. In some cases, lenders charge 20 percent annual rate of interest for loans maturing in a year. The rate charged for loans maturing within a period shorter than a year was 24 percent.

In some places, the credit sale of buffalo matures on Chaitra 15 (March-end) among the Brahman communities and Paush 15 (December-end) among the Magar communities as per the tradition. The local shop-keeper provides kind credit upto 15 days to two months. Interest would be charged if repayment is not made within the stipulated period.

For shorter periods and lower amounts, interest charged is generally higher. However, in some cases, small advance is extended among relatives and friends even without interest for a few days to one-two-three months. Thus, there is sufficient flexibility in the determination of maturity period of loan in the informal transactions.

4. Form of Lending

Lending is primarily done in cash although lending in kind (sale of local shop-keepers, sale of goat, buffalo and ox, sale of foodgrain and even sale of land) is also practiced. Local shop-keepers extend kind credit for a short period of time extending up to two months as mentioned above. Some traders charge nominal interest for the whole period of credit. All such traders charge higher rate of interest ranging upto 36 percent after the maturity date. Traders initially record the transaction in their books. After the period of credit, *'Kapali Tamsuk'* will be made if payment is not made in due time. Sale of buffaloes and oxen is generally made on credit without interest, the maturity of which falls on Chaitra 15.

Loan is mainly disbursed at a single installment. Payment of interest is made basically on the annual basis. However, there are cases where interest payment is made monthly, quarterly or six-monthly also. There is also a practice of lending to the local trader with the condition of getting interest payment every two or three months. The repayment of principal is primarily on the annual basis. This has, in some cases, also been repaid monthly, two monthly or six-monthly. Repayment of principal is made in cash. In negligible cases, advance is made to the laborers as a form of payment for working in the lender's farm at times of necessity.

However, the repayment schedule has some flexibility based on the understanding between the borrowers and lenders. Lenders are interested more in the regular payment of interest by the borrower than in enforcing the rigidity of principal repayment as long as they perceive that principal payment in the future is ensured. If the interest is not paid in due time, the lenders capitalize the interest amount generally after one year and a new bond substitutes the older one.

5. Types of Borrowers

The borrowers comprise small and medium farmers, local traders, friends and relatives, and laborers (who are provided advance payment for working in the lender's farm). The borrowers should possess honesty and creditworthiness to get loan. Local petty traders supplement their fund requirement by borrowing from the lenders for carrying out their trading activities.

Three borrowers who had borrowed both from the Small Farmers' Development Project (SFDP) and rural lenders had an average family size of eight members and land holding of 18 ropanies. All of them indicated that their income is sufficient for their livelihood. Two of the farmer borrowers borrowed from SFDP for ginger cultivation, buffalo/goat/ox purchase, sericulture, wheat cultivation, and vegetable farming. The borrowing from local lenders was for social/consumption/ religious as well as land and buffalo purchase and vegetable farming. Another borrower, who was a village shopkeeper, borrowed from SFDP, local lenders, and wholesale traders (in kind credit) for shop-keeping. This shows that borrowers who borrow from SFDP have supplemented the requirement of their credits with the informal borrowing as well. This is basically due to the ceiling imposed on SFDP loan amount.

6. Recovering the Loan

While extending loans, the rural lender assesses the trustworthiness and sincerity of the borrower by observing his character, honesty, capacity, and willingness to pay. Because of the proximity and acquaintance with the borrower, who generally happens to be the resident of the same or near-by village, the lender has sufficient experience and other useful information to establish the creditworthiness of the borrower. On account of this, of the 30 respondents, two-thirds have had either none or very insignificant amount of loan which was not recovered.

The general recovery measures adopted are to inform/notice/remind/ follow-up/request followed by social moral pressure and warning. Some borrowers simply come and pay and some have to be threatened about legal action. Land sale, social bond, and seizing of livestock and other goods and even rescheduling of maturity are other measures adopted for recovering the loan. Being watchful of the borrower's income-receiving time is found to be another way for loan recovery.

The arrear of the trader (lender-in-kind) has been around 5 percent and has even reached 10 percent in a case. Death of borrower was another reason for the non-recovery of loan. The overall default percentage is just 1.7 percent only, with the share of the trader at 3.5 percent and that of the other general village lenders at 0.9 percent. This shows that the loan recovery system in the informal sector is very efficient. This might be one of the reasons for its sustainability despite the growth of formal sector over the years.

7. Loan Security

There is no hard and fast rule for taking collateral for loans. All the respondents reported that they could provide loans without collateral. However, 30 percent of the respondents also took collateral mostly in the form of gold as well as silver and copper pitcher. Similarly, there was no specific margin deduction for such collateral. The margin could range between zero to 30 percent. In one instance, high margin rate was associated with the long duration of loan so as to cover the interest risk during the period. Loans without collateral were mostly provided to honest, familiar, and trustworthy people followed distantly by friends and relatives, own customers, small shop-keepers, villagers with capacity to pay, and people traditionally having links and possessing future prospect. There was no specific purpose for which loans were granted. Honest and needy people with capacity to repay could obtain loans from the lenders.

Verbal contract and the *'Kapali Tamasuk'* were the two equally important contractual arrangements under which loans were provided. Verbal contract was practiced for loans of small amount and short duration to acquaintances, relatives, friends, and very trustworthy people. But these considerations are of subjective discretion from lender to lender. In other cases, written contract like *'Kapali Tamasuk'* is introduced in order to ensure the ultimate legal repayment guarantee. In few cases, loans are provided without collateral on the basis of noting in the diary of lender, register of the shop-keepers, and acknowledgment of receipt by the borrower. With respect to the lending and repayment system, the loan security mechanism of informal sector credit thus looks flexible and is based on the lender's personal judgment.

On the basis of the records as provided by the Palpa Land Registration Office, there were only four cases of *'Drisitibandhaki'* (land mortgage at sight)/*'Vogbandhaki'*(land mortgage on use) bonds registered in that office throughout one year. So this *'Bandhaki'* system of loan security is not popular now-a-days. However, there were sufficiently large number of money lending cases registered in and decided by the Palpa District Court. Of the total number of civil suits filed in the court, more than 25 percent of the cases fell under the money lending categories. The total sum of money involved was more than Rs. 4.5 million. This shows that the lending under the *'Kapali'* bond carries sufficient legal protection. However, on the basis of field observation, most lenders were not in favour of going to the court to recover their dues in view of the factors like time, resource, discomfort, and procedural impediments.

As observed in the loan recovery sub-title of the records, the low loan delinquency rate in the rural informal lending could be substantiated by the greater efficiency of this lending exercise even without any sort of collateral. This is due to the proper identification of honest and trustworthy borrower from the lender's side. The lender is interested in identifying the honest and trustworthy borrower as there is greater chance of the lender losing his money if he is lax in the process.

8. Trends in Lending Operations

Rural lending activities at the present are not expanding. Only 11 percent of lenders observed that their lending business is expanding. The remaining 89 percent viewed that there is no expansion in their lending activities.

As to the query whether the lending operation has actually reduced, 52 percent replied in the affirmative, and the rest 48 percent responded that there is no such reduction with the coming of bank. Of the lenders whose lending operation was reduced, 43 percent felt that the reduction was attributable to the introduction of bank financing, whereas 57 percent do not attribute the reduction in their lending to the emergence of banking activities. We can thus make a general observation that the rural lending business is proceeding at a usual pace. However, with the coming of banks, they have substituted some portion of the volume of rural informal credit. But there are some other more important factors besides the emergence of banks like changing social perception and misconceptions about the money-lending business that have somewhat hindered the expansion of the rural lending. The survey, however, shows that the borrowers are not constrained by the availability of funds. The underlying factor is the sincerity, trustworthiness, and repaying capacity of the borrower. If a lender can not provide him sufficient amount of fund, he can approach other lenders in the locality to supplement the required loan size. While lending, sincerity and source of future income are the important determining variables for smaller loan amounts and for shorter periods, whereas for larger and longer loans the wealth also becomes crucial factor.

9. Prevailing Rates of Interest

Interest rates generally range from 15 to 60 percent. The specific rates charged are 15 percent, 18 percent, 20 percent, 22 percent, 24 percent 25 percent, 36 percent, 48 percent, and 60 percent. Two-thirds of the prevailing interest rates are at 24 percent or below, with about 10 percent of the rates at 60 percent. Interest rate is generally lower on account of the social relationship, acquaintances, and neighborhood. The lender could charge higher rate of interest in emergency cases. In some emergency needs, however, smaller amount of loan for shorter period could be provided to friends and relatives even without any interest. Generally, near and dear ones are charged lower rate of interest vis-a-vis other borrowers. Since it is the informal credit mechanism, there is no definiteness about the rate of interest charged to the borrowers. For heavier transactions like land purchase, the rate of interest charged was generally at a lower level of 20 percent since no direct monetary transaction was involved between the lender and the borrower.

The traders generally provide kind credit for 15 days to two months without any interest. They, however, charge market rate of interest if payment is not made or rescheduled in the deadline. They could charge nominally higher price in kind credit. If the lenders perceive that there is higher default risk, the interest rate charged is toward higher side.

10. Monitoring and Follow-up Procedures

More than half of the rural lenders do not feel it necessary to know how the money is used by the borrower. This is basically due to the reason that the loans are provided to the trustworthy and honest people with willingness and capacity to pay. Since the lender observes the conduct, activities, and capacity of the borrower from close quarters, the lender builds up sufficient information so as to guarantee his loan repayment.

Those who felt it necessary to know as to how the money is being used, inquired about and observed the daily conduct and behavior and also met the borrower personally.

Harsh measures for the recovery of loans are not generally required as the loans are provided to the trustworthy and capable borrower. However, in case of delayed repayment, the lender meets, requests, and reminds the borrower for the recovery of loan. If these measures are not sufficient, social pressure, warning, and fear of legal action are also resorted to. In marginal cases, even the property of the borrower is disposed off for recoveiing the loan. Sometimes, the lender meets the borrower and pressurizes for repayment when he gets income (i.e. receipt from remittances, etc.). The predominant feature of the lending by the money lenders is that they do not want to lose their personal, hard-earned money, and resort to all kinds of pressures for the recovery of loan.

11. Interlinkages in the Informal Credit Market

Informal sector credit transactions are basically operated in cash. However, for smaller amounts of loan provided to farm laborers, the repayment is made in labor, too. In some cases like purchase of goods from the local shopkeeper, purchase of buffalo and land, etc., the transactions are carried out in credit for some period of time. In the case of ginger, the local merchants borrow money from the informal lender to meet immediate need for cash as they may be in short of necessary funds to purchase the incoming supply of ginger. The number of local centers for the purchase of ginger from the farmers is growing which means that the farmers could get more competitive price for their produce. Sometimes, foodgrain is also sold in credit to needy people to be repaid in labor as well as cash. Besides, as noted above, some farmers covered by the SFDP/IBP (Intensive Banking Programme) were found to have borrowed money from the informal sector as the informal credit was insufficient to meet their credit requirement.

12. Sources of Loanable Fund

The lenders lend money the source of which is parental wealth and personal income. Their earning is basically based on business, salary, pension, remittance, and agricultural income. The sale of land has also been a source of fund for such lending. Gold loan from the bank, sale of house and livestock, etc. are also the source of loanable fund. The rural lenders, if short of cash, also borrow from other informal lenders to meet the credit need of the trustworthy borrower. The rural shop-keepers who themselves get kind credit from the wholesaler also provide kind credit to their customers.

Since the system of depositing money with the lenders is almost absent, the rural lenders do not possess outside fund in order to generate higher amount of credit. Thus, in the absence of external funds, the lenders depend on their own limited source of fund to carry out their lending activities. However, around 70 percent of the lenders are of the opinion that they do not experience any constraint of fund for lending. This is basically due to the reason that the loans are provided to the people who are creditworthy and possess strong repaying capability. The scarcity of fund, therefore, arises from the side of the borrower. For a good borrower, there seems to be no limitation of fund availability as the lenders also borrow from other money lenders to extend loans to their affiliated clients as already discussed.

13. Seasonality of Credit Operations

The informal credit transactions do not follow any particular seasonality in their operations. However, the festivals and wedding occasions require more credit from the informal sector than in other periods. The months of Asadh, Shrawan, Bhadra, Aswin, Kartik, Marga, Paush, and Chaitra are associated with comparatively higher demand for informal sector credit. Since funds are required any time throughout the year for various purposes, the rural people, instead of going to the banks to satisfy their credit needs, take loan from the local lenders as bank loans are more formal and mostly not suited to their needs and social practices. In the case of some traders, they need more credit during the harvesting season of ginger to buy the produce. Some credit is also required for the cultivation purpose. For consumption purpose, the credit is mostly required during the period of festivals and such other social/religious occasions.

14. Geographical Coverage

Generally, the rural lenders provide loans to borrowers in the accessible and convenient areas of their own or neighboring VDCs. However, for relatives and friends, they can lend even to a greater distance. The distance covered by a lender generally ranges from one km upto 20 km with the average at 6.5 km. This shows that the lending operations of a rural lender are confined to their own locality and the area in which they are most acquainted with. Such narrower geographical area which a lender covers is primarily due to the limitation of the individual financial resources as well as the need for ensuring the repayment of principal and interest by providing credit to those who are at a nearer distance in the area in which he lives, who are intimately connected with him, and have trustworthiness and capacity to pay as perceived by the lender.

15. Strengths of the Informal Credit

The following have been observed as superior strengths of the informal lending operations:

a. Easier and unrestricted access to local money lender;
b. Absence of complicated and lengthy procedures in obtaining the loan;
c. Personal and traditional social relationship with the money lender;
d. Credit operations not restricted by use/purpose;
e. Availability of funds for meeting the emergency needs like sickness;
f. Keen personal evaluation of the creditworthiness of the borrower by the lender;

g. Absence of rigidity with respect to:
   i. Collateral, contract, and duration,
   ii. Credit availability at any time,
   iii. Repayment rescheduling,
   iv. Obtaining of loan by friends, and relatives, and also the acquaintances on the basis of honesty and trustworthiness, and
   v. Loan size.

h. Frequent need of kind credit from the local shop-keepers and its availability.

16. Limitations of Institutional Financing

The following have been observed as the limitations of institutional financing in the rural areas:

(a) Complicated bank procedures which are both time and effort-consuming;

(b) Bank loans are purpose-specific and banks do not provide for consumption loans. Although the loans are purpose-specific, proper inspection, monitoring, and follow-up is practiced to ensure that the credit is used for the specific purpose;

(c) Inaccessibility and remoteness of banking institutions for the rural borrowers;

(d) Delay in obtaining bank loan due to various reasons;

(e) Indifference and hesitation of the rural people about the institution and its practices due to illiteracy and information constraints.

(f) Specificity in loan disbursement by purpose and amount (budgeting of bank loan). Higher incidence of loan default as loans were provided to borrowers with lower creditworthiness in order to meet the loan disbursement target).

(g) Rigid and inconvenient conditions as to collateral and its high margin reduction as well as the indivisibility of the collateral placed in the bank in the form of the land ownership document as this document is held by the bank even for a smaller amount of loan. According to the borrowers, banks restrict to the compliance with document rather than the actual creditworthiness of the borrower.

(h) Lack of traditional and social relationship with the rural people;

(i) More formality;

(j) No provision of providing consumption and emergency loan except the loan extended against the collateral of the gold;

(k) Unavailability of sufficient loan amount;

(l) Compounding of interest quarterly and rigidity in rescheduling of the repayment schedule of the loan;

(m) Indifferent attitude and lower level of motivation among the bank employee;

(n) Strong and immediate recovery measures including auctioning of collateral;

(o) High transactions costs; and

(p) Commercial banks could charge unrecorded sum in addition to the interest rate (a respondent of Ramdi said that he had to pay Rs. 15000/- as commission to the Kotihawa Branch (Rupandehi district), of the Rastrya Banijya Bank while sanctioning credit for bus chasis).

Despite these strengths of the informal sector and the limitations of the formal sector regarding rural financing, informal lending operation is not, however, witnessing expansion. Almost 52 percent of the lenders observed that informal credit has actually contracted. The reasons given for such contraction are as follows:

(a) Fear of default due to dishonesty and less trustworthiness as to the future time;
(b) Preference for depositing money in banks as it is safer and also fetches some interest;
(c) Investment of money in trade and industry in the urban and semi-urban areas;
(d) Some substitution of rural lending by SFDP and IBP operations of the banks;
(e) Employment opportunities in Nepal/ India/other countries;
(f) Migration of rural people with surplus fund to urban areas;
(g) Lack of sufficient income-generating activities in the rural areas;
(h) Tiring and costly legal procedures in the ultimate recovery of loan; and
(i) Changing social values, relationships, and patterns.

Conclusion

The system of informal financial markets has continued to be very much in demand among the rural borrowers due to factors like the absence of institutional credit in their areas, strong social relationship between borrower and lender in the informal sector, lender's ability and willingness to make sound assessment as to the creditworthiness of his borrower, insignificant level of bad debts, and the collateral-based, purpose-specific nature of bank loans. The above discussion makes it amply clear that even in areas where banks are in operation, their tiring, time-consuming, and complicated procedures and mechanisms besides the harassment and non-transparent deals that take place there have significantly restricted the accessibility of the rural borrowers to the bank resources. On the contrary, the rural lenders are found to have conveniently provided credit in required size free of procedural complexities, for any purpose, and without being rigid in the collateral conditionalities. Also, they possess flexibility with respect to the rescheduling of the maturity period. In order to provide benefits the rural economy by reinforcing the strengths and attractions of the informal markets and also enhance the efficiency and effectiveness of the financial and monetary policies at the national level by encompassing these transactions in the purview of the formal structure, it is an urgent necessity to formalize such credit markets and also establish sustainable linkages between the formal and informal sectors. So devising a viable rural credit delivery system through the mobilization of financial resources and supplementing the rural credit needs forms an important strategy toward filling up the resource gap for the socio-economic development of the rural sector in Nepal. And tapping the strengths and potentialities of the rural informal credit market becomes instrumental in the process of devising a sustainable and efficient credit strategy in the rural economy. The new legislation encourgaing on regulating the operations of financial intermediaries should also be an important milestone in this endeavour.

Referemces

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