

CREDIT AND FINANCIAL ACCESS IN NEPALESE AGRICULTURE: PROSPECTS AND CHALLENGES

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ABSTRACT

The credit and financial access are urgent needs for agricultural development. This paper has attempted to find out present status of agricultural credit and their prevalent challenges and problems. The study is fully based on the statistical data, reports and findings of MoALD, MoF, NPC, NRB, and other relevant publications. The Government has targeted to expand agricultural credit through banking and financial institutions (BFIs) by implementing several acts, policies, strategies and programs through NRB, MoALD and MoF. However, constraints like credit ceiling, high value collateral demand, limited redemption facilities, limited agriculture insurance, financial illiteracy, lack of farmer friendly technologies, and poor monitoring and regulation of BFIs are responsible for lower credit expansion. Thus to promote and motivate BFIs and farmers to invest in agriculture, government need to address these challenges. The study also suggests to segregate farmer according to demand of credit volume and expand the branchless banking.

Keywords: BFIs, commercialization, cooperatives, MFIs, production

INTRODUCTION

Nepalese farmers depend on different formal and informal sources for credit facility. The formal sector includes Nepal Rastra Bank (NRB) licensed Bank and financial institutions (BFIs), Microfinance institutions (MFIs), and cooperatives. While the informal sector includes the farmer group, women groups, personal lenders etc.(Gautam *et al.*, 2016).

The fifteenth periodic plan has targeted to increase the agriculture growth to 5.4% and productivity by 2024 by increasing the commercialization, competitiveness, mechanization and export promotion (NPC, 2020). Likewise, it has also targeted for the access of credit and financial resources with financial inclusion of farmers including all commercial and small farmers, small, medium and micro cottage, female and youth in all the geographical areas (MoALD, 2015). However, commercialization and competitiveness in agriculture sector is poor due to difficulties in credit access (MoALD, 2015). The agricultural production of Nepal is unable to meet the domestic demand of Nepal. The Table 1 depicts the agricultural production which has increased

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in comparison to past, but very low to meet national demand leading to higher agricultural import.

The minimum per capita annual food requirement set by Food and Agriculture Organization of the United Nations (FAO) shows that existing Nepalese production is insufficient to fulfill the domestic demand. To fulfill this demand, there has been huge import of agricultural commodities in Nepal (MoF, 2021). In 2019/20, around 252.89 billion value of Nepalese currency was expended for importing agriculture commodities. While the agriculture commodities equivalent to 55.19 million was exported in 2019/20 (MoF, 2021).

This insufficient production system, high import, low export and poor competitiveness are challenges as well as opportunities for Nepal to invest in agriculture as profitable sector. The trend of commercialization has increased in Nepal, with the expansion of irrigation facilities and mechanizations. Furthermore, the attraction of farmer toward the animal husbandry is increasing and there are agriculture-friendly government policies which is conducive to carry out the commercialization (NPC, 2020). The government of Nepal has prioritized the agriculture sector for investment, the Agriculture Development Strategy (ADS), fifteenth periodic plan, and NRB directives has enhanced the policies for investment in agriculture sector. The agriculture credit can assist in entire development and promotion of agriculture sector through commercialization, mechanization, competitiveness, import substitution, export promotion and industrialization (MoF, 2021).

Table 1. Status of Major Agricultural Production ('000 Mt)

Category	1994/95	2018/19	2019/20	2020/21*	Productivity (MT/Ha)
Cereals	5440	10686	10935	10926	3.2
Cash crops	2425	6026	6809	6912	12.36
Pulses	202	378	404	397	1.2
Total fruit	398	1018	1249	1305	10.7
Total fresh vegetables	1212	3750	3962	4196	14.7
Milk	941	2092	2301	-	-
Meat	159	346	552	-	-
Eggs (000,000 number)	383	1512	1620	1623	-
Fish	-	-	99	103	-

Source: (MoALD, 2021)

This paper has highlighted the existing credit access and facilities in Nepal for agriculture sector. Furthermore, the paper discusses about the hurdles and challenges prevailed in agriculture credit system. The objective of this paper is to find the gap between credit access and agriculture development in Nepal which may assist the policy maker, academic and related concerns to know the existing situation, loophole in agriculture credit.

METHODOLOGY

The study is completely review based. The paper has explored periodic reports, statistical data, and findings published by government sectors like Ministry of Agriculture and Livestock development (MoALD), Nepal Rastra Bank (NRB), and Ministry of finance (MOF). Likewise, other secondary sources were research articles and publications.

RESULTS AND DISCUSSIONS

AN OVERVIEW OF BANK AND FINANCIAL INSTITUTIONS OF NEPAL

The history of modern and formal financial system was begun in 1937 with the establishment of Nepal Bank Limited. Whereas, the systematic development of financial system was witnessed after establishment of NRB in 1991. Nepal has been following the liberal economic policy and diverse financial system (Dhakal and Panthi, 2002). The (BFIA) Banks and Financial Institutions Act 2017, an umbrella act of financial legislation, governs the financial sector of Nepal. It has categorized financial institutions as class A, B, C, and D, depending on their minimum capital requirements. The Nepal Rastra Bank (NRB), the central bank, regulates and licenses financial institutions (NRB, 2020). In 2022 mid-May, the banking and financial institution to carry banking transaction in Nepal counts 127 comprising 27 Commercial Banks, 17 development bank, 17 finance companies and 65 micro finance institutions, and 1 infrastructure development bank. The NRB's comprehensive merger by laws 2011, has regulated to minimize the number of banks in Nepal to foster and make competitive banking system. Thus the number of regulated bank and financial institutions have decreased than previous record. The numbers of local level without branches of commercial banks have come down to 3 (MoF, 2021; NRB, 2022).

AGRICULTURE CREDIT AND SUPPORTING FINANCIAL POLICIES IN NEPAL

Priority sector and deprived sector:

The NRB has directed all the BFIs compulsory to invest in the priority sector which includes agriculture, energy, tourism and SMEs. The Unified Directive 2020 of NRB has directed the commercial bank to invest at least 11%, 13%, and 15% of total credit in 2020/21, 2021/22, and 2022/23 respectively for agriculture sector. Likewise, other BFIs are also instructed to invest in agriculture as priority sector (NRB, 2020).

Table 2. Priority sectors investment target, instructed by NRB Unified directive 2020

Priority	Institution	2020/21	2021/22	2022/23	2023/24
Agriculture	A	11%	13%	15%	-
Agriculture, (SME) energy and tourism	B	16%	17%	19%	20%
Agriculture, (SME) energy and tourism	C	11%	12%	14%	15%

Source: (NRB 2020)

Since 1991/92 NRB has directed the bank and financial institution to lend the deprived sector credit with the objective of uplifting the socio-economic status of poor deprived people of the society (Dhakal and Panthi, 2002). The deprived sectors include the socio-economically and marginally deprived population including female, small farmers, labors etc. The provision of lending this credit in micro credit form, the NRB directive 2020 has directed all the BFIs to lend at least 5% of total credit as deprived sector credit. Failure to comply such provision cause the BFIs to be penalized in monetary terms. For agriculture purpose farmers, farmers' groups, agricultural firms are given several amount of micro-credit for production, buying the agri-inputs, machineries, building cold storage, processing units, livestock, poultry production etc. The women, unemployed, youth, farmers, workers, youth returned from foreign job are mostly targeted for this credit to support them for investing in agriculture, and income generating activities (NRB, 2020). Likewise, the MFIs and cooperatives are also provided the wholesale loan from A, B and C BFIs with mandatory to invest in deprived sectors. In 2021 July, deprived sector loan disbursement stood 7 percent of total credit compared to the minimum regulatory requirement of 5 percent by the commercial banks, development banks, and finance companies (MoF, 2021).

Concessional loan:

The monetary policy 2021, NRB has made mandatory for commercial bank to lend concessional loan at least in 500 projects and 300 projects for development bank for a fiscal year. The "Integrated Procedural for Interest subsidy on concessional loan-2075" has been formulated for the implementation of concessional loan. Under this loan, up to 50 million of commercial agriculture and livestock loan, 5% of interest subsidy is provisioned and 2% for more than 50 million. Likewise, the provision of security like group security for less than 1 million, and business project security for more than 1 million has been made. The commercial agriculture and livestock loan includes different aspects of agriculture and livestock production, processing, storage of vegetable, fruits, medicinal plants, mushroom, eggs, dairy, meat, fish, poultry, livestock, beverages, spices, etc. Likewise, vegetable, seed, floriculture,

horticulture, livestock, processing in vegetable, meat, fruits production, seed, irrigation and irrigation equipment, agriculture machineries and equipment's, land development and conservation, forest and range land development and other agribusiness are also included (MoF 2018, NRB 2021). A total of Rs.161.44 billion credit has been extended to 1, 04,109 borrowers as of mid-July 2021. Of which, Rs.106.98 billion has been extended to 46,057 borrowers for selected agriculture and livestock businesses (MoF, 2021). Likewise, larger portion of loan guarantee fees, insurance premium and interest were reimbursed by government as subsidies, through NRB, on regular repayment of loans. NRB has mandated BFIs to disburse minimum number of such loans on both branch wise as well as overall basis (MoF, 2018).

Financial access, literacy and financial inclusion in agriculture sector:

NRB has prepared four-year cycle (2020-2023) financial literacy framework targeting different profession including farmers. This frame work has aimed to outreach multi-stakeholders though NRB and other BFIs (NRB, 2020). Similarly, incentivizing on opening of branch in rural areas, launching open bank account campaign, easing operation of branchless banking, increasing focus on modernization of payment system are some recent measures to expand financial inclusion. The government has adopted policy of establishing at least one commercial bank branch in each local authority level. There are 753 local authorities where the commercial bank has reached to 750 local authorities. The government exempted Cash Reserve and Statutory Liquidity requirements for BFIs to extend their services in remote areas. BFIs are allowed to open one branch in Kathmandu valley only upon opening at least three branches outside Kathmandu valley, where at least two branches should be located in municipality or village level. Furthermore, to improve the financial access and banking service, BFIs are directed to open provincial offices. The commercial banks branches which are carrying out the government transactions of rural municipalities and municipalities are planned for establishing focal desk to promote additional credit in agriculture (MoF, 2021). Likewise, MFIs are allowed to open one branch in sub-metropolitan city only after opening one branch in the municipality and rural municipalities. The bank account opening campaign has made compulsory provision to have a bank account to receive social security allowance, expansion of branches, expansion of stock market with the increasing participation of large people, the access of Nepalese to bank. Around 68.97% of adult population (>15 years) have bank account, among them two third are active users. Likewise, there are many other organizations like USAID involved in increasing financial access to the farmer through new approach like branchless banking. Likewise, the priority sectors and deprived sectors in credit of NRB directives has played significant role in farmer's inclusion. The micro-credit has made the small and deprived farmer to enable them in small and micro entrepreneurship (NRB, 2020).

Financial Sector Development Strategy (2016/17 - 2020/21):

The financial sector development strategy has adopted the financial access and inclusion as pillar of banking system. It has emphasized on several techniques for increasing the financial outreach in rural and remote areas. The techniques for increasing the availability of BFIs services in rural and remote areas are focused with development of proper policies to expand the financial access and financial inclusion, and regulatory and supervisory framework for MFIs, institutional arrangement for broadening the financial access, public awareness through financial education; and consumer protection with respect to utilization of financial services and products. The financial access and inclusion includes the farmer and agriculture profession too (NRB 2020). Likewise, the Monetary policy 2021 has planned to formulate and implement the second Financial Sector Development Strategy and fourth Strategic Plan of the NRB for the sustainable and inclusive development of the financial sector and to enhance financial access (MoF, 2021).

Fifteenth five-year plan (2019/20- 2023/24):

The fifteenth periodic five-year plan has targeted to develop the annual average growth rate of agriculture by 5.5 percent until 2024. The 15th plan has specified poor credit expansion as major reason for poor development on agriculture. Some action plans are like encouraging the BFIs to expand loan in priority sector including agriculture, making necessary arrangement for concessional loan and refinancing, increasing the financial literacy, maximum utilization of information technology to expand access to financial services and products, encouragement of micro finance in remote and backward areas, expansion of financial services to all local authority levels through cooperatives and similar community-based institutions, promoting credit to farmers and women through various schemes, and strengthening of agriculture produce and livestock insurance are planned to increase financial access. Likewise, the cooperatives and private sectors are selected for collaboration to promote mechanization, expansion of agro-processing and other agro-industries, mobilization of concessional loan, expansion of credit and insurance services for production, processing, storage, and marketing of agricultural produce, involvement of cooperatives in the market system and enhancement of institutional capacity of cooperatives to ensure farmers' involvement in cooperatives (NPC, 2020).

Agriculture Development Strategy ADS (2015-2035):

The ADS 2015, proposed to increase the profitable commercialization, competition, mechanization, agribusiness, and export promotion with increasing the credit volume and number of financial products (inputs) to the farmers. ADS has prioritized credit access for increasing value of raw form of Nepalese market in export promotion and value addition program to increase the competitiveness of Nepalese product. The financial inclusion is highlighted for all farmers from all gender and socio-economic

status of all geographical regions to the means like land, inputs, credits, market, irrigation, technologies etc. Likewise, ADS has focused to implement secured *transaction act* to strengthen the contractual arrangement, future crop as collateral for farm credit and inputs, and also the development of hire-purchase or financial leasing for agriculture market promoting and improving financial access. The ADS has prioritized dealer financing system for providing financial services to agri-inputs dealers through commercial banks either by extending credit on commercial terms to dealers or from NRB “deprived sector” lending program (MoALD, 2015).

Promotion of Small loans:

The government has allowed to charge only up to 2 percentage points above the base rate of respective BFIs and no service charges or prepayment fees for the loans up to 1.5 million, in agriculture, business and enterprise. Likewise, for the small and medium enterprises, occupational agriculture and income generating activities in earthquake prone areas, BFIs can provide loans up to 2 million. On these kind of small loan, agricultural land without access to road can also be accepted as a collateral. Similarly, BFIs can provide loans up to 1.5 million for agriculture production like coffee, tea, oranges or livestock production or milk production, on the project evaluation, without any need for fixed assets as a collateral (NRB, 2020).

BFIS (BANK AND FINANCIAL INSTITUTIONS) OF NEPAL IN AGRICULTURE SECTORS

Flow of Credit and financial services in Nepalese agriculture

Table 3. Sector wise outstanding agriculture credit by different bank and financial institution (million rupees)

Year	A	B	C	Credit percentage
2011	14191.6	2578.0	1508.8	2.6%
2012	23407.3	3689.2	1697.6	3.6
2013	31531.3	6338.7	1913.8	4.16
2014	40270.1	8697.6	1942.1	4.5
2015	50706.2	12422.9	2030.6	4.7
2016	61125.1	15580.3	2086.1	4.6
2017	75349.9	11607.1	3084.2	4.5
2018	116435.9	15538.8	3781.8	5.6
2019	166038.3	22564.4	4854.7	6.6

2020	201758.4	19281.5	4732.5	6.9
2021*	-	-	-	7.6

Source: (MoF 2021, NRB 2021)

The economic survey of 2021 shows that, till march 2021, only 7.6% of credit was disbursed solely to agriculture (MoF 2021).The table 3 depicts increasing trend of agriculture credit flow, however the percentage of credit directed to disbursed by NRB was very low. The total credit flow in prioritized sector by commercial bank was 34.45% of total credit flow, comprising 13.2% in agriculture and 21.2% in off agriculture sectors. The BFIs investment as credit flow in the consumption was highest 70.5% of total credit. Despite of prioritization by government, the credit flow in agriculture was secondary comprising the value to NRs. 442 million. There is increment in agriculture investment, but still there is high credit flow for consumption, followed by agriculture (MoF, 2021).

BANKING AND FINANCIAL INSTITUTION IN AGRICULTURE CREDIT

Commercial Bank in agriculture Credit:

The credit flow of commercial bank has significant impact in agriculture production and AGDP. Their services in rural areas facilitate the agricultural production and directly stimulate agricultural growth (Rimal 2014). The commercial bank has provision of commercial agriculture and livestock loan facility, and other credit and saving facilities targeted for the farmers. By the 2023, the monetary policy of 2021 has made provision for commercial bank to invest at least 15% of their total credit in agriculture (MoF 2021). However, the agriculture growth from commercial bank seems very less noticeable. The commercial banks are more interested in manufacturing loan rather than the agricultural loan. In 2021, 7.8% of the total credit was disbursed in agriculture sector which was less than 11% directed by the NRB (NRB 2021).Beside of these, the priority of bank in 2021 was wholesale and retailers followed by service industries, production, and construction. The agriculture credit was in fourth rank (NRB, 2021).

Agricultural development Bank Nepal (ADBL):

ADBL is the foremost financial institution for providing micro-financial services in Nepal. It was first institution to initiate the group based micro credit program known as “Small Farmer Development Program (SFDP)” in 1975. The SFDP was implemented to increase the living standard and economic status of small farmers including the tenants and landless laborers (Dhakal and Panthi, 2002). Among the existing commercial bank of Nepal, ADBL is lead commercial bank to invest in agriculture. More than 30% of credit was invested by ADBL in agricultural sector. Several credit for livestock, poultry, cold storage, agriculture input, SMEs and other financial services like Kisan credit card and Kisan app are forwarded by the ADBL for the Nepalese

farmers to provide agricultural information along with financial resources (ADBL, 2021). The monetary policy 2021 has promoted ADBL as lead bank for agriculture credit. The ADBL is allowed to issue agricultural bond to ensure availability of long term financing in agriculture sector (NRB 2021). The ADBL connect with other institutions like MFIs and cooperatives to provide micro credit to small farmers and micro entrepreneurs (ADBL, 2021).

Micro- finance institutions (MFIs):

MFIs are the important financial institution to provide financial services to the rural and lower income families (MoLJPA 2017). To expand the MFIs and increase the financial access, NRB has made provision to extend the MFIs in those areas which are underserved by other types of banking institution (MoF 2021). MFIs provide micro-credit, small value non-collateralized loan to poor on the basis of group solidarity mechanisms. It targets the rural areas to provide the micro credit especially in (micro, small, medium enterprises) MSME. The interest rate of MFIs is very lower, the NRB has made provision of maximum interest rate cap of 15 percent. Likewise, the refinancing policy has been extended to MFIs that has made more possibilities on low cost of borrowing in micro-credit. However, the MFIs are also found charging higher interest rate of 18 to 24% due to higher operational cost which has made the rural livelihood unable to repay the loan (ILO 2019).

The study of (Oli, 2018) showed that increase in microenterprises loan and total assets leads to increase in GDP and Per Capita Income (PCI). Thus MFIs has significant role in increasing the economic growth of country. Likewise, micro finance has assisted in creation of employment through promoting the SME. It has become best option for financial inclusion including rural, poor, underserved, deprived, farmers, women etc. (NRB, 2020). The loan of MFIs are generally used for small enterprises, agriculture, livestock, poultry, and other income generating activities like manufacturing, carpeting etc. However, the rural communities prefer micro credit for consumption rather than agriculture, the priority of agriculture is behind in MFIs (Paudel 2013, ILO 2019). For more effective credit flow, credit utilization and enhance the micro finance outcome, some important factors like increase in loan size, effective means to identify poor and targeted people, basis follow up and monitoring and training are urgent needs in MFIs.

Cooperatives in agriculture sector:

The constitution of Nepal 2015, has declared the cooperatives sector as one of the three pillars of national economy. According to the department of cooperative, there are 29,886 cooperatives in Nepal out of which 79.5% of total cooperative represent as local level cooperative followed by 20% provincial cooperative and 0.5% of federal cooperative. Majority of cooperative represents the rural and local level of Nepal. Similarly, the major type of co-operatives operating in Nepal are saving and credit

cooperative (39%), followed by agriculture (32%), multipurpose (13%), dairy (5%), consumers (4%), and others like bee keeping, vegetables and fruits, tea, coffee, medicinal plants, sugarcane, sweet orange, electricity etc. (DeoC, 2018; DeoC, 2020). Cooperatives had played major role in poverty alleviation, socio-economic empowerment, skill and capital utilization, micro-enterprise development, promotion of consumer financial literacy (Khatiwada, 2014). The farmers who are member of cooperatives has enjoyed higher production, accessibility to inputs, subsidy, technical information, and commercialization (Neupane, Adhikari *et al.*, 2015). However, the cooperative activities are focused more on savings and credit than on productive sectors and self-employment thus, the government has planned to make cooperative accessible, and expand the credit in productive and exportable goods (NPC, 2020).

CHALLENGES OF AGRICULTURE CREDIT AND FINANCIAL SERVICES IN NEPAL

Informal banking access:

The Nepalese population depending on formal banking sector account only 45 percent. This hesitation on formal sector is due to banking fees, long distance to bank, low financial literacy, cultural barrier etc. Nepalese farmers are found borrowing loan with higher interest rate from informal sectors like farmer group, women group, individual money lenders (neighbor, relatives etc.) or stores their cash at home (Gupta, Gautam *et al.*, 2016, WI 2021). Likewise, similar kind of financial products and services for both urban and rural areas, has made products and services unattractive for rural population. Thus BFIs should make their financial product and services attractive and understandable for rural population comprising the farmers.

Financial literacy and technology:

The study of Mishra, 2021 depicts that education in farmer's is important factor for accessing the agriculture credit. But there is lack of proper knowledge on banking services and products, lack of skills and attitude development to change this knowledge to behavior, awareness in availability and use of digital financial services etc. The rural areas farmers are unknown to different financial products like insurance, concessional loan, commercial agriculture and livestock loan, procedures, digital banking. They are depending on informal credit institution and rely on high interest loan. They are more vulnerable to the frauds and malpractices (Karn, 2018; NRB, 2020).

Still 31.9% of Nepalese have not access to bank account. The use of financial technology is increasing but in a limited percentage where technologies like internet banking, mobile banking and ATM user is only 3.86%, 32.03% and 20.35% (NRB, 2020; MoF, 2021). The rural population are unable to use and are not interested in technologies due to poor information technology knowledge's, language barriers, network problems etc. Thus these communities should be prioritized to increase their literacy that will enable them to invest rationally and make rational financial

decision. The technologies must be made in accordance to need and literacy level of farmers. The infrastructure should be developed for network and communication.

Poor physical infrastructures:

Most of rural and remote areas in Nepal relies in agriculture economy. Despite of commitment to reach to underserve areas and providing agriculture specific loan, BFIs are unable to approach to rural farmers due to network and technical issues. There are limited physical infrastructure and limited economic opportunities for these institutions to flourish in those areas. The operating cost will be high for them to reach out every rural part to reach farmers (Karn, 2018; WI, 2021). The rugged terrain, resource constraint on those areas challenge to develop basic infrastructures, information and communication technologies which is conducive for farmers. Furthermore, the farmers feel costly to reach BFIs due to long distances for them to travel. Thus, it is important to develop basic infrastructure like road, communication, electricity, irrigation, and transport in both agriculture and local economy. Extension of branchless banking system in those areas may assist the farmer to access financial services too.

Lack of assets for collateral:

The study of Mishra, 2021 found that farmers were reluctant to take agriculture credit due to lack of collateral with them. The government has made provision of collateral free, or acceptance of road less agriculture land (NRB, 2020). However, the Nepal Financial Inclusion Road Map reports that around 24% of Nepali adult were refused for loan due to lack of sufficient income and 19% were unable to provide the collateral. Practically for the creditworthiness of the clients, formal BFIs demand strong collateral and lot of mortgage and annual income of farmers (Bhatta, 2014). The agriculture land is less preferred due to poor marketability and low value. The BFIs feel risky to disburse the loan against the collateral of agricultural land (WI, 2021).

The approach like contract farming, future crop collateral, ware house financing should be implemented which has been already addressed in secured transaction act of Nepal. Implementation of scientific land categorization, and disbursement of loan on the basis of categorized land, can ease BFIs for providing loan to farmers.

Lack of Insurance:

The monsoon based farming, unsure availability of inputs, non-guaranteed market, sudden outbreak of disease and pest has made the Nepalese agriculture riskier and vulnerable. Thus insurance companies are reluctant to insure the crops and livestock due to higher risk, and it is difficulty in accessing the accurate risk, input cost and losses in crop production. Furthermore, the geographical and infrastructure constraints, lack of human resources in rural resources, insufficient axillary services

like technicians and weather station are other factors hindering the agriculture insurance. The farmers are also not interested in agriculture insurance due to lack of awareness and lack of public confidence toward insurance market (MEFIN, IBN *et al.*, 2020, Thapa 2021). Thus to intensify the agriculture insurance public awareness campaign should be increased in farming community.

Credit ceiling:

The subsidy loan in agriculture cooperatives is limited to 10 million. If ceiling would be increased then it would be helpful to establish the mega agriculture structure like cold storage, go-downs, purchase agriculture commodities etc. The government should prioritize macro credit through the cooperative and MFIs to the commercial farmers (NRB 2020; Thapa 2021). Likewise, the small farmer to access the small loan need to register their firm or company. These farmers have poor knowledge about this, thus the farmer must be treated as natural entity to provide small credit.

Policy Hurdles:

In 2020/21 the commercial bank was directed to invest at least 11% of total credit flow, however the outstanding credit flow in agriculture sector was only 7.6% (MoF, 2021). BFIs is not positive to invest in agriculture, It better pays penalty to the NRB rather than investing in agriculture. There are many policies related hurdle that has made BFIs reluctant to invest in agriculture.

Firstly, The NRB has directed to finance any business on the basis of working capital which is not possible for the agriculture. Estimation of working capital based on stock, receivable, payable in agriculture is not practical. Thus financing in agriculture must be different than other business, since its production cycle is different and complex than trading cycle. The financing in agriculture can be done on the base of cost of production of particular agriculture enterprise (NRB, 2020; Thapa 2021). Secondly the farmers in Nepal are of different type ranging from small farmers to commercial farmers. There is no segregation of credit depending upon the categories of farmers. Simplification of documentation and operational procedure should be prepared by concerned authorities (Government/NRB/BFIs and MFIs) that will enhance financial access and can burrow easily.

The credit for the perennial crops, farmer receives revenue after long period thus the grace period must be categorized according to the nature of crops too. Likewise, there is limited redemption facility in case of risky condition like natural calamities, diseases, pest, etc. Thus the redemption policy must be strengthened to facilitate and motivate the agribusiness.

The monitoring and timely supervision of BFIs should be carried by government to know whether the BFIs are lending the loan to appropriate farmers, either BFIs asking

corruption for lending credit, distributing the subsidized loan to actual farmers and real farmers, paper procedure, lending on required time etc. There are number of policies and regulations that are made for systematic financial system, but they are becoming hurdle for agriculture credit. Thus government should think about to relax these hurdle for farmers and agriculture purposes.

CONCLUSIONS

The poor credit expansion is the major reason for poor development on agriculture. Despite of government regulations, the BFIs are reluctant to invest in agriculture. The commercialization, mechanization, competitiveness, import substitution and export promotion is only possible if there is optimum investment in agriculture sector. The BFIs, cooperatives, MFIs and other registered financial institutions providing the financial services in Nepal are instructed by government to invest in agriculture as priority sector. However, the higher operational cost of BFIs branches, poor physical infrastructures, and some credit policies like credit ceiling, short grace period for perennial crops, group based and collateral free loan etc. has hurdled BFIs to invest in agriculture. The complex agriculture production cycle, high risk and un intensified agriculture insurance , subsistence farming, long paper procedure, demand of high value collateral are challenges for agriculture credit system. Similarly, the lack of financial awareness had made farmer unaware about subsidy loan, and other loan related facilities planned for them. Thus in order to increase the investment in agriculture both BFIs and farmers are needed to be motivated with some relaxation on credit policy, categorization of farmers according to credit volume demand, intensification of insurance, relaxation of credit ceiling for commercial farmer, warehouse financing, scientific land categorization for collateral and regular monitoring of BFIs either they are providing loan to the actual farmers or not. Likewise, the farmer friendly technologies, awareness campaign related with financial literacy, insurance, development of physical infrastructures, and branchless banking should be promoted to enhance the agriculture credit.

Agriculture is completely different enterprise than other trading and business. The biological cycle is completely different for different commodities. Hence the existing NRB directives and credit policies may not address the agriculture. To prioritize the agriculture and increase the agriculture credit, separate agriculture credit policies and agriculture credit directives should be prepared which will assist both farmers and BFIs in credit issues. Furthermore, there will not be conflict between agriculture and other enterprises regarding terms, conditions and other provisions of credit.

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