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Farmers' Perceptions Towards Agricultural Loan Provided by Commercial Bank: Evidence From Rupandehi District, Nepal

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Abstract

Agriculture is a vital sector in Nepal's economy, contributing approximately 24% to the Gross Domestic Product (GDP) (Economic Survey 2080/81). However, access to agricultural loans from Banking and Financial Institutions (BFIs) remains a significant challenge for farmers due to stringent collateral requirements, complex documentation, delayed loan processing, and unprofessional behavior from bank staff. This study investigates farmers' perceptions of agricultural loan services provided by commercial banks in Rupandehi District, focusing on four main factors: collateral requirements, documentation complexity, loan processing time, and bankers' behavior. A descriptive and correlational quantitative research design was employed, with primary data collected from 155 farmers through stratified random sampling. Data were analyzed using SPSS, with descriptive statistics and multiple linear regression employed to examine the relationships between banking services and farmers' perceptions. The findings reveal that high collateral demands and loan disbursement delays negatively affect farmers' perceptions, while simplified paperwork, courteous bank staff behavior, and better loan accessibility contribute to increased satisfaction. Regression analysis confirmed that these factors significantly influence farmers' perceptions, with banker behavior emerging as the most influential factor. All hypotheses were supported, emphasizing the role of these factors in shaping farmers' experiences. The study recommends that banks simplify documentation, reduce disbursement delays, lower collateral requirements, and train staff to exhibit more respectful behavior, ultimately enhancing the overall experience for farmers. These improvements could foster financial inclusion, promote agricultural commercialization, and inform rural banking policy in Nepal, providing a foundation for future research and policy initiatives in agricultural finance.

***Keywords*:** agricultural loans, farmers' perceptions, collateral requirements, loan processing, bankers' behavior, financial inclusion, rural banking policy.

Introduction

Agriculture is one of the major contributing factors to the national economy, with around 28% contribution to GDP. However, farmers face significant barriers in accessing formal credit. This study examines farmers' perceptions towards agriculture loans provided by commercial banks in Rupandehi District, identifying key factors that influence their experience and satisfaction with formal credit services. Nepal's agricultural sector remains central to the country's economic stability and food security, representing not merely an economic activity but the livelihood foundation for the majority of the population.

Despite its crucial importance, the sector faces persistent challenges, including insufficient investment, limited access to modern technology, and inadequate financing mechanisms that constrain productivity and growth potential (Rana & Thapa, 2022). While the Nepal Rastra Bank mandates commercial banks to allocate a portion of their portfolio to agricultural lending through the priority sector lending program, farmers continue to encounter substantial barriers when seeking formal credit, creating a significant gap between policy intentions and practical implementation. The credit accessibility is challenging, particularly for small-scale farmers who often lack the collateral, documentation, and institutional knowledge required by commercial banks (Sharma, 2019). This situation creates a gap where those who need financial support to improve their commercialized agriculture activities are systematically excluded from formal credit markets. Consequently, many farmers resort to informal lending sources that charge significantly higher interest rates, ranging from 24% to 36% per year, perpetuating cycles of debt and limiting opportunities for agricultural advancement and technological adoption (CIMMYT, 2022). Commercial banks play a crucial role in economic development through capital allocation across various sectors, including agriculture. However, despite the availability of agricultural loan products, farmers in key agricultural regions like Rupandehi District face systematic barriers that limit their effective utilization of formal credit services (Adhikari, 2021). These barriers create a complex web of challenges that extend beyond simple credit availability to encompass issues of accessibility, affordability, and appropriateness of financial products for agricultural contexts.

These barriers manifest in multiple interconnected forms that compound the difficulties farmers face in accessing formal credit. Insufficient institutional credit for small farmers forces many to seek alternative financing sources, while complex and time-consuming application processes create additional hurdles for farmers with limited formal education or institutional experience (Singh & Patel, 2020). The geographic distance between rural communities and resources simply to initiate loan applications. Furthermore, challenging collateral requirements often prove insurmountable for small-scale farmers whose primary assets may not meet banking standards for security. Beyond credit access issues, farmers contend with broader systemic challenges that affect their overall financial stability and capacity for debt servicing. Inefficient marketing channels dominated by middlemen reduce farmers' profit margins, while inadequate access to essential agricultural inputs such as quality seeds, fertilizers, and irrigation water constrains productivity. These interconnected challenges create volatile income streams that make debt repayment difficult and discourage farmers from engaging with formal financial institutions (Kumar & Mishra, 2020).

This study has been designed to address the following objectives:

- To identify the factors that influence farmers' perceptions of agricultural loans from Banking and Financial Institutions (BFIs), specifically focusing on collateral requirements, documentation procedure, bankers' behavior, and loan processing time.
- To analyze the relationships between farmers' perceptions of agricultural loans and the identified factors (collateral requirements, documentation procedure, bankers' behavior, and processing time), assessing how each factor contributes to shaping these perceptions.
- To examine the effects of collateral requirements, documentation procedures, bankers' behavior, and processing time on farmers' satisfaction with agricultural loans, testing the hypotheses regarding their significance and impact on farmers' views.

Literature Review and Hypothesis Development

Existing literature consistently identifies credit access as a critical constraint for rural populations in developing economies, with research across South Asian contexts revealing several recurring challenges that align closely with the Nepalese experience (Kumar & Mishra, 2020). These challenges reflect deeper structural issues within rural financial systems that extend beyond simple capital availability to encompass institutional design, service delivery mechanisms, and cultural factors that influence farmer-bank relationships. Collateral requirements represent the most significant and widely documented barrier to formal credit access across developing economies. In Nepal's specific context, this challenge is particularly pronounced among marginal farmers who lack formally documented land titles or sufficient movable assets to satisfy banking security requirements (Sharma, 2019). The situation is further complicated by traditional land tenure systems and incomplete property registration processes that leave many farmers unable to provide the documentation required by modern banking institutions.

Furthermore, commercial banks demonstrate reluctance to adapt their risk assessment frameworks to accommodate the unique circumstances of smallholder agricultural operations, preferring standardized approaches that may not reflect the actual risk profiles of agricultural borrowers (Adhikari, 2021). Documentation processes create additional barriers that disproportionately affect farmers with limited formal education or digital literacy. The complexity of banking terminology and procedural requirements often deters potential borrowers who may possess the capacity to service loans but lack familiarity with institutional processes (Singh & Patel, 2020). Language barriers compound these challenges in rural areas where local dialects predominate over standardized banking communications, creating communication gaps that can lead to misunderstandings and application errors.

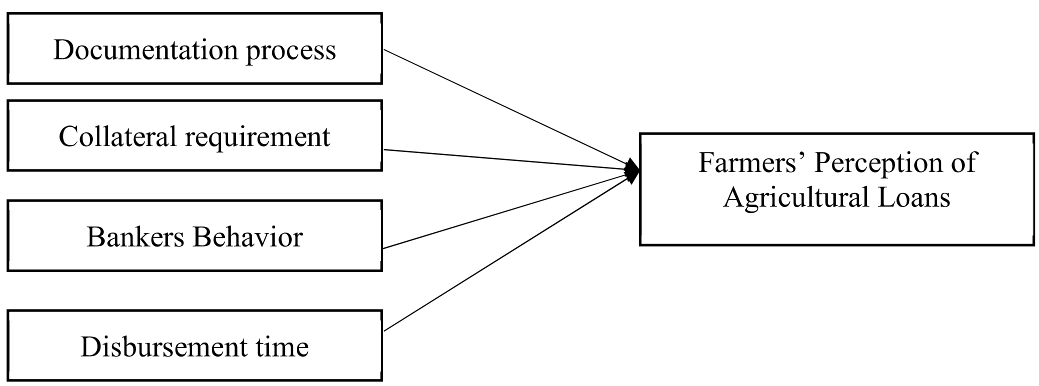
Research indicates that these documentation challenges are not merely procedural inconveniences but represent fundamental accessibility barriers that exclude large segments of the rural population from formal financial services (Poudel & Gurung, 2022). The behavior and attitudes of banking personnel significantly influence farmers' willingness to engage with formal credit institutions, representing a human dimension of financial service delivery that is often overlooked in policy discussions. Studies across Bangladesh and Nepal demonstrate that the professionalism, responsiveness, and cultural sensitivity of frontline banking staff directly impact borrower confidence and subsequent credit utilization patterns (Khanal, 2020). When bank employees demonstrate understanding of agricultural contexts and treat farmers with respect, it builds trust relationships that encourage continued engagement with formal financial services. Conversely, dismissive or culturally insensitive behavior can create lasting negative impressions that discourage farmers from seeking formal credit even when their financial needs are acute. Recent studies in agricultural finance have highlighted the importance of understanding farmer perceptions and experiences with formal credit institutions. Research across developing economies consistently shows that access to agricultural finance remains constrained by both supply-side factors, such as institutional policies and procedures, and demand-side factors, including farmer awareness, financial literacy, and cultural barriers (Teye & Quarshie, 2022). The interaction between these factors creates complex dynamics that require careful analysis to develop effective interventions for improving credit access and utilization. Based on the review, the following hypothesis has been set.

H1: Farmers' perceptions are greatly influenced by collateral requirements.
H2: Farmers' perceptions of agricultural loans are greatly impacted by a straightforward documentation procedure.
H3: Farmers' opinions of agricultural loans are significantly impacted by the actions of bankers.
H4: Farmers' perceptions of agricultural loans are significantly impacted by the processing time

Based on review and hypothesis development, the following conceptual framework has been presented in figure 1 to demonstrate the relationship and the extent of impact of independent variables and dependent variables under study.

Figure 1

Research Framework



Methodology

The research methodology adopted for this study employed a descriptive and correlational quantitative design to evaluate the influence of key banking service factors–such as accessibility, collateral requirements, documentation complexity, loan processing time, and service attitude–on farmers' perceptions of agricultural credit systems. This dual approach allowed for a comprehensive understanding of observable trends while enabling statistical exploration of relationships between independent variables and the dependent variable: overall farmer perception.

To ensure relevance and authenticity, the study targeted farmers who had either applied for or received agricultural loans from commercial banks. This selection guaranteed that participants possessed firsthand experience with contemporary lending practices and could articulate perceptions grounded in real interactions. The sample was drawn using stratified random sampling from the diverse agricultural community of the Rupandehi District, which includes both small-scale and medium-scale farming operations. A total of 155 respondents were selected, with the sample size calculated using Cochran's formula for finite populations to balance statistical robustness with practical feasibility.

Descriptive statistics formed the foundation of initial data analysis, allowing for the presentation of key demographic and behavioral traits of the respondent group. Measures such as frequencies, percentages, means, and standard deviations were used to capture patterns in age distribution, educational background, farm size, and loan-related experiences. These descriptive insights painted a clear picture of the socio-economic context in which banking interactions occurred.

To test hypotheses and uncover deeper relationships, the study employed various inferential statistical tools. Pearson's correlation coefficient was used to measure the strength and direction of linear relationships between individual banking service factors and farmers' overall perception of their lending experience. Multiple regression analysis further investigated how combinations of these independent variables predicted the dependent outcome. Additionally, t-tests were utilized to compare perceptions between different farmer groups, such as those who received loans versus those who were denied. ANOVA was conducted to assess variance in perception scores across subgroups, including differences in education level and operational scale.

Reliability Analysis

Table 1

Reliability Coefficients (Cronbach's Alpha)

Variable	Items	α (Alpha)
Collateral	5	0.813
Documentation	3	0.783
Time	3	0.789

Bankers' Behavior	5	0.822
Perception (DV)	5	0.813

All measured constructs in the study, Collateral, Documentation, Time, Bankers' Behavior, Accessibility, and Perception, showed strong reliability. This is indicated by Cronbach's alpha values of over 0.70. Cronbach's alpha measures how consistent the items within each construct are in measuring the same concept. Values above 0.70 confirm that the survey items were reliable and cohesive. This ensures trustworthy results for analyzing farmers' views on agricultural loans.

These analytical techniques helped strengthen the study's conclusions by providing statistical evidence for the influence of banking practices on borrower attitudes. Through the integration of descriptive clarity and inferential precision, the methodology allowed for a rich, multidimensional analysis of farmer–bank relationships in the agricultural financing landscape.

Results and Discussion

The study analyzed primary data from 155 farmers in Rupandehi District using SPSS software, employing descriptive and inferential statistics to examine perceptions of agricultural loans. The following section summarizes an overview with key tables. Data analysis utilized descriptive statistics to summarize respondent characteristics and perceptions, and multiple linear regression to test relationships among variables influencing farmers' perceptions of agricultural loans.

Descriptive Statistics

Descriptive statistics help paint a clear picture of the respondents' experiences with agricultural loan services in Rupandehi District. By analyzing averages, spreads, and patterns, the study revealed which aspects of banking, like collateral requirements and loan processing speed, were seen as either helpful or burdensome. This overview set the stage for deeper analysis and highlighted areas needing attention.

Collateral Requirements

Table 2

Descriptive Statistics for Collateral Requirements

Statement	Mean	SD
High collateral requirement	4.36	0.85
Minimum collateral requirement	1.90	0.68
No collateral required	1.81	0.62

Compliance with NRB guidelines	3.10	0.52
EMI is affordable	1.92	1.00

Farmers in the study strongly agreed that obtaining an agricultural loan requires high collateral, reflected by a high mean score. They mostly disagreed with statements that suggested low collateral or no collateral at all. This shows that they see collateral requirements as strict and not flexible.

Documentation Process

Table 3

Descriptive Statistics for Documentation Process

Statement	Mean	SD
Documentation is hassle-free	2.19	0.82
The process is lengthy and complex	3.92	0.76
A large number of documents are required	4.21	0.60

Farmers viewed the documentation process for agricultural loans as complicated. They had a mean score indicating moderate to strong agreement that the process is lengthy. They also strongly agreed that a large number of documents are required, with a higher mean score of 4.21. These findings show that farmers consider the documentation process to be burdensome and demanding.

Time Required for Loan Processing

Table 4

Descriptive Statistics for Time

Statement	Mean	SD
Loan provided on time	3.11	0.83
Delays hinder timely use	3.37	1.02
Loan issued ahead of time	1.52	0.55

Farmers said that loan disbursement often had delays. A mean score of 3.37 shows moderate agreement that loans were not provided on time, which affected their timely use. They strongly disagreed that loans were issued ahead of schedule. A low mean score of 1.52 suggests that early loan issuance was rare and that inefficiencies in the lending timeline were common.

Bankers' Behavior

Table 5

Descriptive Statistics for Bankers' Behavior

Statement	Mean	SD
Respectful behavior	3.96	0.88
Clear communication	3.82	0.91
Support during the loan process	3.77	0.89
Comfort in asking questions	3.58	0.94
Proper complaint handling	3.44	0.99

Farmers had a positive impression of bankers, especially appreciating their respectful behavior. The mean score of 3.96 shows strong agreement that bank staff were courteous. However, the way complaints were handled received a lower score. A mean of 3.44 indicates moderate agreement. Farmers felt the complaint process was not as effective, highlighting the need for improvement in this area.

Regression Analysis

Table 6

Multiple Regression Coefficients

Predictor	B	Beta (β)	p-value
Collateral	-0.128	-0.24	0.003
Documentation	0.215	0.35	<0.001
Bankers' Behavior	0.318	0.44	<0.001
Disbursement Time	-0.089	-0.17	0.047
Accessibility	0.148	0.22	0.021

Table 6 provides a detailed picture of the factors influencing farmers' perceptions of agricultural loans through a multiple regression analysis. Among the five predictors examined–collateral requirements, documentation, bankers' behavior, disbursement time, and accessibility–bankers' behavior emerged as the most influential factor. With a standardized beta coefficient (β) of 0.44 and a p-value of less than 0.001, the results indicate that courteous, respectful, and helpful behavior by banking staff significantly enhances farmers' perceptions of the loan experience. This finding highlights the critical role interpersonal interactions play in shaping farmers' trust and comfort with formal financial institutions.

Documentation procedures also show a significant positive impact, with a beta value of 0.35 and a p-value of less than 0.001. This implies that a streamlined, clear, and less bureaucratic documentation process greatly improves how farmers perceive the agricultural loan system. In contrast, collateral requirements negatively influence perceptions, as indicated by a beta of -0.24 and a p-value of 0.003. This suggests that rigid collateral demands, which are often difficult for smallholder farmers to meet, create a substantial barrier to loan access and lead to negative sentiments. Similarly, loan disbursement time has a negative beta of -0.17 and a p-value of 0.047, showing that delays in disbursing loans–often when funds are urgently needed during planting or harvesting periods–undermine trust and satisfaction. Accessibility also contributes positively to perception ($\beta = 0.22$, $p = 0.021$), suggesting that when farmers can easily reach banking services and obtain information or support, their satisfaction with the credit process improves.

Overall, the regression analysis underscores that farmers' perceptions are shaped not only by the technical and financial aspects of the loan (like collateral or documentation) but also significantly by the human element–particularly how they are treated by bank personnel. The results call for reforms in both operational procedures and human resource practices within banks. Improving communication, training staff for respectful interaction, simplifying paperwork, minimizing delays, and offering flexible collateral alternatives could collectively foster a more positive and inclusive lending environment for rural farmers. These actions are essential for boosting credit uptake, increasing trust in formal banking systems, and promoting sustainable agricultural development in regions like Rupandehi District and beyond.

Table 7

Summary of Hypothesis Results

All five hypotheses (H1–H5) tested in the study were accepted. This means that each independent variable, Collateral, Documentation, Bankers' Behavior, Loan Disbursement Time, and Accessibility, had a statistically significant influence on farmers' perceptions of agricultural loans. The multiple linear regression analysis confirmed this, as each predictor showed significant p-values: Collateral ($p = 0.003$), Documentation ($p < 0.001$), Bankers' Behavior ($p < 0.001$), Disbursement Time ($p = 0.047$), and Accessibility ($p = 0.021$). These results indicate that each factor affects how farmers view the loan process. Bankers' Behavior, Documentation, and Accessibility had positive influences, while Collateral and Disbursement Time had negative effects.

Hypothesis	Statement	Status
H1	Collateral significantly influences perception	Accepted
H2	Documentation significantly influences perception	Accepted
H3	Bankers’ behavior significantly influences perception Bankers’ influences perception.	Accepted
H4	Loan disbursement time significantly influences perception	Accepted

Conclusion and Implications

This study highlights that farmers’ perceptions of agricultural loans in Rupandehi District are significantly shaped by factors such as collateral requirements, documentation processes, bankers’ behavior, loan disbursement time, and overall accessibility. Among these, the behavior of bankers was found to have the strongest positive impact, underscoring the importance of respectful and supportive interactions in fostering positive loan experiences. Simplified documentation and enhanced accessibility also contribute to greater farmer satisfaction, while high collateral demands and delays in loan disbursement were identified as negative factors affecting farmers' views. Addressing these barriers can improve farmers’ trust in financial institutions and encourage greater engagement with formal credit systems.

Policymakers should consider revising the Nepal Rastra Bank guidelines to incorporate more flexible collateral options, such as group-based lending or alternative assets, to increase accessibility for smallholder farmers. Streamlining documentation through digital platforms and standardized forms could further reduce procedural hurdles. Commercial banks are also encouraged to provide training for staff on improving communication, cultural sensitivity, and effective complaint handling.

Additionally, optimizing the loan approval process through the use of digital tools can reduce delays and better cater to the time-sensitive needs of farmers. Enhancing financial inclusion requires a multifaceted approach, including expanding rural bank networks and offering flexible banking hours. This study lays the groundwork for further research on farmer-specific financial products, the impact of digital banking in rural areas, and the influence of cultural factors on banker-farmer interactions. Comparative studies in other regions could validate these findings and guide the development of comprehensive policy strategies. By implementing these recommendations, banks can foster a more inclusive, efficient, and supportive lending environment, promoting agricultural growth and development in Rupandehi District and beyond.

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