

**CHALLENGES AND OPPORTUNITIES OF
AGRICULTURAL FINANCE IN NEPAL**

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RECOMMENDATION

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DECLARATION

I hereby declare that this thesis work entitled “**CHALLENGES AND OPPORTUNITIES OF AGRICULTURAL FINANCE IN NEPAL**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Masters of Business Studies which is prepared under the supervision of respected supervisor **ASSOCIATE PROFESSOR RITA MASKEY** of Shanker Dev Campus, T.U.

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ABBREVIATIONS

ADS	:	Agriculture Development Strategy
BFI	:	Bank and Financial Institutions
CBO	:	Community Based Organizations
FAO	:	Food and Agriculture Organization of the United Nation
F/Y	:	Fiscal Year
GDP	:	Gross Domestic Product
GO	:	Government Organizations
GON	:	Government Of Nepal
ILO	:	International Labour Organizations
INGO	:	International Non-Governmental Organizations
MOALD	:	Ministry of Agriculture and Livestock Development
NGO	:	Non-Governmental Organizations
NPL	:	Non Performing Loan
NRB	:	Nepal Rastra Bank
PSLP	:	Priority Sector Lending Program
S.D	:	Standard Deviation
T.A	:	Total Assets
TU	:	Tribhuvan University
USAID	:	United States Agency For International Development

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

High Credit flow in agricultural sector is the major driving force for the advancement and commercialization of agriculture as it helps farmers to initiate new ideas, increase capital and production (Jaen, 1964), embrace modern technology improved (Schumpeter, 1911), and can adjust with the change in external environment (Musembi, 2019). Also it helps farmers to receive agricultural inputs as fertilizers, seed, and equipment's on time (Saboor et al., 2009) and assists people who lack finance to establish new agricultural business. Thus, it increases agricultural productivity, agricultural revenue and helps to improve living standard of farmers' (Jan & Khan, 2012).

Due to a lack of finance, farmers are forced to rely on less efficient traditional methods of production, rely on the monsoon season since there isn't enough irrigation, and suffer a shortage of fertilizers and better seeds during the planting season. As a result, agriculture is now mostly a subsistence industry. In nations like Nepal, where agriculture accounts for a fourth of GDP (23.13% to be precise) and employs three-quarters of the population (66%) (FAO,2020), funding in this sector cannot be overlooked during policy formation (NRB, 2014). Availability of less finance, underdeveloped irrigation infrastructure, reliance in old agricultural practices and lack of technology are the major causes of inefficient productivity in agricultural (Rimal, 2014).

Nepal has both institutional and informal credit sources. Informal sources include friends, family, and local traders, whereas official sources include banks and financial institutions. Outside of Nepal's city area the high percentage of demand of credit is being met through informal channels which is around 80% and rest is only processed through legal channels (Besley, et al., 2001).

From FY 1982/83 to FY 2012/13, agricultural credit grew at a slow rate of 47times, compared to 184 times for commercial bank credit (Shrestha, 2014). The current total sectoral credit given to the sector is Rs. 276.21billion (NRB, 2023). Nepal Rastra Bank in 2017, introduced Priority Sector Lending Program (PSLP) for the emerging need to invest

in the agriculture sector. This policy requires formal institutions such as banks and finance to devote 10% of their loan portfolio to agriculture at a subsidized interest rate of 5% (USAID, 2019). Due to a variety of problems such as a lack of proper business strategies, a complicated loan acquisition procedure, collateral concerns, and stringent qualifying criteria, credit is difficult to come by for small holder farmers (Pradhan, 2019). Similarly, bank loan repayment terms and conditions are not synchronized with the agricultural crop cycle and farm cash flows. Internal variables affecting farmers include the types of agricultural commodities produced, purchases of operational inputs such as seeds and fertilizers, and fixed inputs such as machinery and equipment, rate of interest and payback time (Gupta et al, 2016).

1.2 Statement of the Problem

Improving financing in agriculture requires effort by the government, NGOs, INGOs, and commercial banks. As a result, agricultural finance has the potential to play a larger role in increasing agricultural production. Despite the GON's focus and policy efforts over the past two decades, the country's growth rate has been extremely sluggish, hovering around 3%. (Economic Survey,2023). Most agricultural loans are made to agro-based businesses, not to agro-based producers. Similarly, farmers are unable to complete loan procedures owing to a lack of tangible assets to provide as collateral.

The thought that agricultural sector of economy is less productive than manufacturing sector is believed by commercial banks. Even though the government and central bank have directed financing to commercial banks in key sectors, loans and subsidies have not quite reached the country's rural and needy farmers. Every year, Singha Durbar allocates Rs. 18 billion for agricultural subsidies; however, the marginal groups of the agricultural dependent population have raised concerns over the misuse of such subsidies. People have expressed that beneficiary of the subsidies are those with the ability to exercise power or have political connections and who do not put funds into making the population's conditions better.

According to Rimal (2014) agricultural loans have a definite influence on recipients based on their economic position, income, and effect on the production function, relationship to agricultural goods, productivity, and covered amount of cultivable land. However, such nominal studies are conducted on the conditions that commercial banks prioritize loan

disbursement to the agricultural sector and cover the overall relationship of agricultural loans to the sector's growth rate, as well as the comparison of loan growth rate and product growth rate between the agricultural and manufacturing sectors. Had it been so, the productivity in the agricultural sector could be quite different than how it currently is; in the present context, Agriculture employs 68 percent of Nepal's population and its output accounts for 34 percent of the country's GDP, (ILO, 2020). Despite this, Nepal struggles to provide enough food for its people. Farmers have restricted access to new technology, better crops, and market possibilities. Rural economies have been hit hard by falling agricultural productivity, which has resulted in widespread famine and urban migration (USAID, 2021).

So, for the study, the following research problems have been raised;

- What is the status of agricultural finance in Nepal?
- What are the opportunities in agricultural finance in Nepal?
- What are the challenges to be faced on agricultural finance in Nepal and what measures are to be followed for increasing financing in agricultural sector?

1.3 Objectives of the Study

The main objective of this study is to overview the financing in agricultural sector of Nepal. The other specific objectives of the study are as follows:

- i. To overview the status of agricultural finance in Nepal.
- ii. To analyze BFIs involvement in agricultural sector.
- iii. To discuss opportunities and challenges in agricultural financing in Nepal.

1.4 Focus of the Study

Agriculture has been primary source of earning for more than half percent of population and focus on agriculture is the main priority of government but despite these actions the return from agriculture has been low. The agriculture sector must be elevated from subsistence levels for the nation's development. The debate over agrarian versus industrial growth has devolved into a pretense. Instead, the focus is on the interplay between industry and agriculture, as well as the contribution one may provide to the other. Agriculture's close and complicated interaction with the rest of the economy, which keeps

changing with economic progress, has been acknowledged as a critical component in the development process (Dhital, 1970).

In comparison to other sectors of the Nepalese economy, credit flow to agriculture is still relatively low (Shrestha, 1990). Nepal's agricultural development strategy 2015-2035 is an important document that lays forth a plan for the country's agricultural growth. NRB, the country's central bank, approved the priority sector lending program in 2017, recognizing the need to enhance investment in the agriculture sector (PSLP). This policy requires banks and financial institutions to provide 10% of their loan portfolio to agriculture, at a subsidized interest rate of 5%. (USAID, 2019).

Agriculture, industry, and services are examples of productive sectors that make up GDP. The government's major focus has been on investments in the productive sectors, which has boosted economic growth and created income and job possibilities. To help the economy, the NRB has made financing in the agricultural and productive sectors obligatory. The NRB instructed banks and financial institutions (BFIs) to lend in specific key areas of the economy to accomplish the nation's long-term economic growth.

However, due to the inherent risks of default and lack of guarantee, BFIs find stronger incentives to lend in industries (such as manufacturing) other than agriculture, notwithstanding the terrible economic situations of farmers. The main objective of this research is to analyze the Opportunities and challenges in agricultural finance why it has not been as expected and what measures need to be done for the increase in production, what should be done for the farmers and how agriculture can lead the economic development of the country.

1.5 Limitations of the Study

The research study has some limitations. The limitations of the study are:

- The data used in this study may vary in different sources. So, to make uniformity in data, data is taken only from verified sources such as NRB, MOALD, and few international sources.
- This study is fully dependent on secondary data provided by various organizations and agencies

- This study has been carried out in limited period of time.
- The data presented from secondary sources have only five years period of time.

1.6 Significance of the Study

This study paper investigates and presents the opportunities and challenges of agricultural finance in Nepal. Agriculture is often deemed as the backbone of the Nepalese economy and first step towards economic development. The findings of this study provide an insight into financing scenario, prospects, policies and way forward. Such information may prove to be valuable to policymakers aiming to boost agricultural development of Nepal.

- Importance to farmers
- Importance to policymakers
- Importance to financial institutions
- Importance to government bodies and departments
- Importance to institute.
- Importance to the researchers.

1.7 Organization of the Study

The study is divided into five different chapters. They are:

Chapter-I Introduction

This chapter includes the background of the study, focus of the study, statement of problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter- II Review of Literature

This chapter deals with the review of available literature. It includes conceptual review, review of books, reports, thesis and journals etc. This chapter also includes research gap.

Chapter – III Research Methodology

This chapter includes the research methodology used in the study which includes research design, population and sample, sources of data, data collection tools used and data processing and analysis etc.

Chapter - IV Data Presentation and analysis

In this chapter, the data related to study are presented and analyzed. This is the major highlight of the thesis as it deals directly with the objectives of the study. These collected data have been analyzed and interpreted with the help of tables, pie chart, bar graph etc,

Chapter - V Summary, Conclusion and Recommendations

This is the final chapter that presents the summary of the study and conclusions reached by the author in this study. Also, it presents recommendations on the research topic.

CHAPTER - II

REVIEW OF LITERATURE

In this chapter review of literature relevant to the topic “Challenges and Opportunities of Agricultural Finance in Nepal” are discussed. The purpose of reviewing of literature is to develop some expertise on one’s area, to see what new contribution has made and to receive some ideas for developing a research design. Thus, previous studies cannot be ignored as they provide the foundation of the present study. This chapter highlights the literature that is available in concerned subject as to my knowledge, research work and relevant study on the topic, review of articles/journals and thesis performed previously. Under this topic, the following subject matter is reviewed.

- Conceptual Review
- Review of Related Studies

2.1 Conceptual Review

Agricultural finance in Nepal is characterized by significant challenges, including limited access to credit, high interest rates, and inadequate risk management. However, there are substantial opportunities to improve the sector through digital financial services, microfinance, public-private partnerships, and innovative financial products. By addressing the existing challenges and leveraging these opportunities, Nepal can enhance its agricultural productivity and support the livelihoods of its farming communities.

2.2.1 Production

Production is the process of creating goods or services by combining various inputs and resources to generate output that can be consumed or further utilized. This process involves transforming raw materials, labor, capital, and technology into finished products or services that meet the needs and demands of consumers.

Inputs (Factors of Production):

Land: Natural resources used in production, such as minerals, water, and agricultural land.

Labor: Physical and intellectual labor of human, used in the production process.

Capital: Machinery, tools, buildings, and equipment used in production.

Entrepreneurship: The ability to organize, manage, and assume the risks of a business to create goods and services.

Processes:

Manufacturing: The process of transforming raw materials into finished goods through the use of machinery and labor.

Service Delivery: Providing intangible goods such as healthcare, education, and financial services.

Agriculture: Producing food and other goods through farming, fishing, forestry, and related activities.

Outputs:

Goods: Tangible products that can be stored and transported, such as cars, clothing, and electronics.

Services: Intangible products that cannot be stored, such as banking, cleaning, and consulting.

Productivity:

The measure of the efficiency of production, often quantified as the ratio of output to inputs used in the production process.

Types of Production

- Primary Production involves extracting and harvesting natural resources, such as mining, agriculture, and fishing.
- Secondary Production involves transforming raw materials into finished goods, such as manufacturing and construction.
- Tertiary Production involves providing services to consumers and businesses, such as retail, healthcare, and education.

Production Functions

In economics, the production function represents the relationship between inputs and the resulting output. It can be expressed in a general form as:

$$Q=f(L, K, M)$$

Where:

Q = Quantity of output

L = Labor input

K = Capital input

M = Materials input

Importance of Production

Economic Growth: Production is a key driver of economic growth and development, contributing to GDP and creating employment opportunities.

Standard of Living: By producing goods and services, production helps improve the standard of living by meeting the needs and wants of individuals.

Resource Utilization: Efficient production processes ensure optimal use of resources, reducing waste and improving sustainability.

In summary, production is a fundamental economic activity that involves transforming inputs into valuable outputs, contributing to economic development and societal well-being.

2.1.2 Agricultural Credit

Agricultural credit refers to the financial services provided to the agricultural sector, including loans, advances, and other forms of credit. This type of credit is essential for farmers and agribusinesses to finance their production activities, manage cash flow, invest in new technologies, and enhance overall productivity. Agricultural credit can come from various sources, including commercial banks, cooperative societies, government programs, and microfinance institutions.

- Agricultural credit is tailored to meet the unique financial needs of the agricultural sector. It can be used for various purposes such as purchasing seeds, fertilizers, pesticides, machinery, livestock, land, and for the construction of farm infrastructure.
- The terms and conditions of agricultural credit, including interest rates and repayment schedules, are often designed to accommodate the seasonal nature of farming. Repayment may be scheduled around harvest times when farmers have more cash flow.
- Depending on the type and amount of credit, lenders may require collateral, such as farmland, crops, equipment, or livestock. However, some forms of agricultural credit, especially from microfinance institutions or government programs, may be unsecured.

2.1.3 Agricultural Loan

An agricultural loan is a type of financial credit specifically designed to support agricultural activities. These loans are offered to farmers, agribusinesses, and other entities involved in the agricultural sector to fund various operations, including crop production, livestock raising, equipment purchase, and infrastructure development. Agricultural loans can be provided by banks, credit unions, microfinance institutions, and government agencies.

- Agricultural loans are tailored to meet the unique needs of the agricultural sector. They can be used for a variety of purposes, such as purchasing seeds, fertilizers, pesticides, livestock, machinery, and irrigation systems.
- The repayment schedules for agricultural loans often consider the seasonal nature of farming. Repayments may be structured to align with harvest periods when farmers have the highest cash flow
- Agricultural loans may require collateral, such as farmland, livestock, or equipment. However, some institutions offer unsecured agricultural loans based on the borrower's creditworthiness and project feasibility.
- Interest rates on agricultural loans can vary widely based on the lender, the borrower's credit profile, and the type of loan. Government-backed loans often come with subsidized interest rates to support the agricultural sector.

Benefits of Agricultural Loans

- Access to credit allows farmers to invest in quality inputs and modern technology, leading to higher crop yields and improved productivity.
- Agricultural loans provide farmers with the necessary funds to manage their cash flow and sustain operations, especially during periods of low income or high expenses.
- By enabling investments in infrastructure, equipment, and sustainable practices, agricultural loans help farmers mitigate risks associated with climate variability, pests, and diseases.
- Agricultural loans support the growth of the agricultural sector, which is a crucial component of the economy in many countries. This growth leads to job creation, increased income, and overall economic development.

2.1.4 Non-performing Loan

A non-performing loan (NPL) is a loan in which the borrower has not made the scheduled payments of principal and/or interest for a specified period, typically 90 days or more. Once a loan is classified as non-performing, it is considered to be at risk of default, meaning the lender might not be able to recover the owed amount.

- The primary characteristic of an NPL is that the borrower has failed to make scheduled payments for an extended period, usually 90 days or more.
- An NPL indicates that the loan quality is impaired and the lender's ability to recover the loan amount is uncertain.
- Financial institutions are required to classify and report NPLs according to regulatory standards, which may vary by country.
- NPLs are reflected on the balance sheet of financial institutions, impacting their asset quality and financial health. They require increased provisioning for potential losses.

2.2 Review of Related Studies

2.2.1 Review of Articles/Journals

Mansuri (2007) in his research paper titled “Credit layering in informal financial markets” concluded that informal lenders with access to markets or capital often find it beneficial to assign loan provision to small scale lenders who have more information and reach to borrowers which are known as credit layering. This paper also examines conditions preferred by informal lenders.

Rimal (2012) in his research paper titled “Agricultural Credit Flow of Commercial bank and Impact on agricultural Production in Nepal” applied Cobb Douglas production and found that the increasing availability of agricultural credit of commercial banks has positive impact on improving agricultural production in the agrarian country like Nepal and raises the concern regarding the consumption of seeds and fertilizers. The study also concludes that financial services and system targets city area but should focus and facilitate agriculture financing system for the people of rural areas.

Government of Nepal (2016) in its strategy report “Agriculture Development Strategy (ADS) 2015 to 2035” has set objective to formulate a 20-year strategic plan including a

10- year Action Plan and Roadmap based on the assessment of the current and past performance of the agriculture sector and for the desired growth in agriculture in future. Nepal's growth of agriculture was slower than most neighbors (same as India). More worrying however seems to be the lack of integration between agriculture and non-agriculture sector in Nepal that is ultimately responsible for the low performance of overall GDP. While in neighboring countries there is a growing and relatively vibrant agribusiness sector, this is still at its early stage in Nepal.

Gauchan (2018) in the article titled "Agricultural Development in Nepal" analyzed that though there are evergreen challenges such as poverty, low HDI high food insecurity and emerging challenges like climate change, outmigration, land degradation and weak research and development but lots of opportunities like mechanization and modernization of agriculture, climate smart agriculture and incentives for private sector participation.

Study by ILO (2019) titled "Eight ways to grow Nepal's Agricultural sector" analyzed that Access to finance is a major constraint in many developing countries, limiting smallholders' ability to start or grow small-scale enterprises. Despite the challenging geography (e.g. reaching clients in remote, mountainous areas), access to some sort of finance is relatively widespread across the country because of a variety of credit services available through microfinance institutions (MFIs), cooperatives and banks. However, despite them being widely available in principle, actually receiving a loan remains a challenge. Banks seem overly constrained and unwilling to venture into agriculture in general, and especially into smallholder production; few banks have sufficient experience engaging with actors along the supply chain, except for large scale commercial businesses. However, by comparison to the MFI and cooperative background, the formal banking sector has comparatively little experience in credit provision. It would make for more sense if banks, MFIs and cooperatives were linked up to complement one another's strengths in loan provision as well as respective geographic coverage.

Upadhyaya (2020) in his research paper "Financing Small Scale Commercial Agriculture in the Hills of Nepal: A Case for Bank-CBO(Community Based Organization) Linkage" concluded that CBOs have demonstrated their unique ability to respond to the small financial needs of their members through internally generated resources. However, the size of their internal resources is often small and insufficient to meet all the demand of

their members. For example, many CBOs are seen to have faced fund constraint in meeting their existing credit demand. Access to bank loans will increase the size of lending funds for CBOs and help expand the volume of business to a level that makes them financially viable and sustainable in their operation. It has also been observed that financial linkage with bank helps to improve the managerial capacity of the CBO in the process of meeting the financial record keeping and reporting requirements of the bank. Overall, the bank-CBO linkage contributes to institutional capacity development of the CBO. It also helps enhance the knowledge and understanding of the bank about the local development needs and priorities, thereby increasing its capacity to extend services to wider areas.

Mulmi (2021), stated that in Nepal manufacturing sector receives more priority from commercial banks in terms of financial assistance because of its comparatively higher rates of return and scope of growth. Furthermore, the policy directed by the NRB in providing certain percent of commercial bank's total credit to the agricultural sector has still not been achieved by the Commercial Banks in the nation, despite the implementation of the rule. The structural issues within agricultural credit flow still have not been addressed with practical remedies; presently, the government is providing subsidies on interest rates for easier credit disbursement and grants.

Thapa (2021) in his article "Agricultural Credit: problems and prospects" discussed that Agriculture credit is the major factor for the development and upliftment of agricultural sector. Unless and until there is a big investment in agriculture, commercialization, mechanization, import substitution, export promotion and industrialization are almost impossible. Taking a look at agricultural credit flow of Nepal we can conclude that investment in agricultural sector is must. Be it government or financial institutions the policies for investment should be included in monetary policy and long-term plans.

Pandey (2022) in article titled "Credit and Financial Access In Nepalese Agriculture" stated that 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. Optimum investment in agricultural sector is needed for the commercialization, mechanization and competitive advantage of agricultural 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. 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. Relaxation on credit policy, focus on credit volume and relaxation on credit ceiling should be implemented to make BFIs and farmers motivated. 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.

Mishra (2023) in the paper titled “Input crisis in the agricultural sector of Nepal” mentioned that agricultural finance is one of the main inputs in agricultural sector but there is still policy formulation and execution problem which further raise issues on food security and sovereignty.

2.2.2 Review of Thesis

Nepal (2015) had conducted research on “Importance of Financing for Nepalese Agriculture and Economic development”.

The Major Findings were:

- Increase in banking access to the rural agriculture sector pulls down interest rates in the formal banking sector, as a result of increased competition, which gradually adjusts interest rates in the informal sector. This causes aggregate interest rate to fall. As aggregate interest rate falls, the volume of capital in the agriculture sector increases, meeting the desired investment, which contributes to production. This creates multiplier effect in the economy through income, saving and investment.
- All the regulated financial institutions in the Nepalese banking sector should be guided to increase their access to rural agro sector and increase their portfolios in the agriculture sector to at least 15 percent of their respective total portfolio.
- The government of Nepal should focus on increasing access of banking in the agriculture eco-system, including storage and transportation.

- The Ministry of Agriculture should focus on facilitating educational campaigns in the agriculture sector, assure better product markets and eliminate involvement of market intermediaries.

Rijal (2018) had conducted a research on “Status of Agricultural Support Services provided by NGOs and INGos : A case study of salyan district, Nepal”

The Main Objectives were:

- To analyze the status of agricultural support services from government of Nepal and other agencies.
- To examine the effectiveness of agricultural support services of GOs and I/NGOs
- To explore the challenges of government agencies and non-governmental agencies in providing agricultural support services.

The Major Findings were:

- There is a need to further strengthen the group approach as a key strategy for enhancing the effectiveness of support services for small farmers.
- The role of government should act as the facilitator, implementer and enforcer of laws.
- Empowerment of the farming community can be ensured through decentralization of decision-making to local government as well as through the active participation of the community in the planning and implementation of programs and projects.
- I/NGOs are working based on the donor interest and lacking the long-term strategies for strengthening the agricultural support services related programs. So, reforms in total system of agricultural support services (Inputs, Extension and Trainings, Markets and Credits) should be prioritized for strengthening the agricultural support services for farmers.

Kalakheta (2022) had conducted a research on “Agriculture Aid and Agriculture Growth in Nepal”.

The Main Objectives were:

- To trace out the trend of gross foreign aid utilized in agricultural sector and real gross agriculture sector output,

- To examine the impact of gross foreign aid utilized in agriculture sector along with other agriculture inputs on real gross agriculture sector output.

The Major Findings were:

- The overall agriculture aid is Rs. 128880.9 million within the sampled period. The volume of agriculture aid is increased in 30 fiscal years and it decreased for 16 fiscal years. The trend of volume of agriculture aid shows that it is continuously increasing over the study period. The average annual growth rate of agriculture subsidy is 15.6 percent over the study period. Annual growth rates were highly volatile. The average ratio of agriculture aid in overall foreign aid was 9.2 percent respectively. The standard deviations agriculture aid to overall foreign aid was 7.8.
- The agriculture sector output has very low growth of 2.9 percent with the standard deviation of 3.1 for the study period. It has 39 increasing and 7 decreasing events over the whole study period.
- The size of irrigated land was increased for 25 fiscal years and it was decreased for 21 fiscal years. The annual average growth rate of irrigated land was 22.7 percent over the whole study period with the standard deviation of 86.
- The size of imported chemical fertilizer was increased for 30 fiscal years and it was decreased for 16 fiscal years. The annual average growth rate of irrigated land was 30.5 percent over the whole study period with the standard deviation of 186.4.

2.3 Research Gap

Research gap is defined as the difference in previous study and current study. Many research studies have been conducted by the different students, experts and researcher about similar topic. There have been numerous research studies on agriculture and finance. The research gap among the previous studies and this current study lies firstly in the title of the research itself and the topic of study. This title brings two entity agriculture and finance together which is evolving with the time. Previous researches were only focused on either agriculture or finance only and few studies which dealt with agricultural financing were using old data and the areas of challenges and opportunities of agricultural finance in Nepal are not covered. Thus, keeping these facts in view, this thesis tries to analyze opportunities and challenges in agricultural finance in Nepal.

CHAPTER - III

RESEARCH METHODOLOGY

The aim of research methodology is to achieve goal from the study of research work, In this chapter research design, nature and sources of data, data collection, data processing and analysis are discussed by the researcher to make research work more convenient.

3.1 Research Design

This is descriptive type of research design. The descriptive and casual comparative type of research design is used to make the analyzed fact more meaningful and useful for the study purpose. So, this research study is designed with the help of secondary data and information. The secondary data are collected mostly from the national sources and few from international sources.

3.2 Population and Sample

The source of finance in agricultural sector arises from formal and informal sector. There are 20 commercial banks, 17 development banks, 17 finance companies, and 57 micro finance and large no of Cooperatives currently operating in Nepal which are assumed to be the population of the study but it is not possible to study all of these commercial banks and financial institutions within this study. So, taking the total number of financing sector on agriculture as population of the study, the data collected from Nepal Rastra Bank (NRB), Ministry of Agriculture and Livestock Development (MOALD) has been taken as sample.

3.3 Sources of Data

The collection of data is very important source of research study. This research study is fully based on secondary data. In order to make this research a successful one, data have been collected from various types of sources. Among them the major national and international sources used in this study are Published document of Nepal Rastra Bank (NRB), Bank and Financial Institutions (BFIs), Ministry of Agricultural and Livestock Development (MOALD), Budget, Economic survey, Agricultural survey etc.

3.4 Data Collection

In this study data has been collected through secondary sources. The data which are related with finance and agriculture are collected. Available data has been collected, tabulated, categorized and interpreted. Relevant information has also been collected from books, research reports, dissertations and magazines.

3.5 Tools Used

To make the study more specific and reliable, the researcher uses two types of tools for analysis,

- a) Financial Tools
- b) Statistical Tools

3.5.1 Financial Tools

Financial analysis is the way of noticing the financial strength and weakness of the firm by establishing some relationship to the items found in profit and loss account and Balance sheet. The ratios related to term “credit” are assessed define the situation of credit. The ratios used for this study are as:

- i. Non-Performing Loan
- ii. Net credit Ratios

A. Non-Performing Loan

Non-performing loans (NPLs) are loans in which the borrower is not making interest payments or repaying any principal. The formula for calculating the NPL ratio is similar to that of NPAs:

$$\text{NPL Ratio} = (\text{Non-Performing Loans} / \text{Total Loans}) \times 100$$

Here's a detailed breakdown:

Non-Performing Loans (NPLs): These are loans where the borrower has failed to make scheduled payments for a specified period (typically 90 days or more).

Total Loans: This includes the total amount of all loans issued by the bank or financial institution.

B. Net Credit Ratios

In banking or finance, the net credit ratio can refer to the ratio of credit extended to customers compared to the total funds available for lending. This ratio helps assess the credit risk and liquidity of a financial institution.

Net Credit Ratio = Total Loans/Total Deposits

Total Loans: The aggregate amount of loans provided by the bank.

Total Deposits: The total funds deposited by customers and available for lending.

3.5.2 Statistical Tools

The statistical tool is essential to measure the relationship of two or more variable. It is the mathematical technique used to facilitate the analysis and interpretation of the performances of the organizations. It also helps to present the data, show the relation and deviations or differences of variables of organizations. The following statistical tools are used in this study:

Arithmetic Mean

The arithmetic mean or simple mean is the set of observations in the sum of all the observation divided by the number of observations. It represents the arithmetic average of a variable of the whole group. Arithmetic mean of a series is calculated as:

$$\text{Mean } (\bar{X}) = \sum X / N$$

Where, X= Sum of the variables 'x'

N = No. of Observation

Standard Deviation

The standard deviation is the absolute measure of dispersion in which the drawback present in other measure of dispersion as it satisfied most of the requisites of a good measure of dispersion. Standard deviation is defined as the positive square root of the mean as square of the deviation takes from the arithmetic mean. It indicates the ranges and size of deviance from the middle or mean. It measures the absolute dispersion. Higher the standard deviation Higher will be the variability and vice versa. Dispersion measures the variation of the data from the central value. Standard deviation is used to find out the variability of the given data. It is calculated as:

$$\text{Standard Deviation (S.D.)} = \sqrt{\frac{\sum(X-\bar{X})^2}{N}}$$

3.6 Data Processing and Analysis

After collecting data from different sources as mentioned above have been arranged in a systematic way and tabulated according to the need of research content. Since this study covers the systematic presentation of volume, composition and direction of Agricultural Financing in Nepal, facts are arranged systematically as obtained through secondary sources with the help of ratios and percentage to make them comparable and explanatory by using the method of descriptive analysis. In order to fulfill the specific objectives, descriptive statistical tools have been applied for the processed and tabulated data. Tables are designed in values, percentage and ratios. Figures are drawn in order to make the results comparable and self-explanatory.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter is concerned with the data presentation and analysis of data, which are collected from different sources. In this chapter, effort has been made to analyze the data by using different financial and statistical tools. The main purpose of this chapter is to study, evaluate and analyze those major agricultural financing, which are mainly related to the financing on agriculture. Necessary figures and tables are also presented in this part to describe about the Challenges and opportunities of the agricultural financing in Nepal.

4.1 Agricultural Production in Nepal

Agricultural crops production in these years is decline as a whole but the trend is shifting from normal crops to cash crops. The table below shows that the change in different agricultural crops in three different years.

Table 4.1
Major Agricultural Production in Metric Ton

Name of the Crop	Aggregate						
	Four years ago	Three years ago	Two years ago	Last year	Base year	Change in last year	Change in base year
	F/Y 2018/19	F/Y 2019/20	F/Y 2020/21	F/Y 2021/22	F/Y 2022/23		
Food and other crops	17,966,553.46	17,440,502.08	17,848,198.72	17,322,641.96	17,499,085.69	(2.94)	1.02
Vegetables	4,020,734.30	4,193,991.02	4,186,989.32	4,051,667.36	4,540,102.52	(3.23)	12.06
Fruits	1,136,372.54	1,218,855.96	1,281,349.87	1,315,623.80	1,419,776.08	2.67	7.92
Spices	586,223.34	558,976.84	597,433.77	607,211.27	744,299.05	1.64	22.58
Honey Production	2,136,184.95	2,129,729.26	8,909.81	12,715.97	14,178.98	42.72	11.51
Total	25,846,068.59	25,542,055.16	23,945,317.51	23,332,474.72	24,242,535.47	(2.56)	3.90

Source: Directorate of Agriculture development, Krishi gyan Kendra

Table 4.1 provides a comprehensive view of agricultural production trends over the specified fiscal years, showing changes in production quantities and percentage changes relative to the base year and the previous year.

The table "Major Agricultural Production in Metric Ton" presents production data for various crops and agricultural products over five fiscal years: F/Y 2018/19, F/Y 2019/20,

F/Y 2020/21 F/Y 2021/22, and F/Y 2022/23. It details production quantities in metric tons for each crop in the respective years, along with percentage changes compared to the previous fiscal year and the base year. The crops listed range from staple foods, fruits, vegetables, spices and honey production. The increase in production of agricultural item provides opportunities for agricultural financing.

4.2 Livestock and fishery production in Nepal

Table 4.2

Livestock and Fishery production

Particulars	Unit	Aggregate						
		Four years ago	Three years ago	Two years ago	Last year	Base year	Change in last year	Change in base year
		F/Y 2018/19	F/Y 2019/20	F/Y 2020/21	F/Y 2021/22	F/Y 2022/23		
Milk	Thousand Liters	2,722,983.14	2,881,897.00	3,032,210.98	3,117,053.28	3,017,720.63	2.80	(3.19)
Meat	Metric Ton	466,514.47	551,846.58	548,774.29	574,812.39	546,924.81	4.74	(4.85)
Eggs	Thousand Number	940,289.94	1,039,106.31	1,797,633.33	1,660,251.88	1,577,536.24	(7.64)	(4.98)
Wool Production	KG	1,691,364.18	1,692,116.61	246,010.70	227,977.65	200,677.08	(7.33)	(11.98)
Leather Production	Thousand Square Metres	22,791.07	24,006.45	33,326.01	33,968.80	28,614.61	1.93	(15.76)
Fishery	Metric Ton	55,044.08	62,458.98	77,611.06	83,094.32	87,232.12	7.07	4.98

Source : Directorate of Livestock And Fisheries Development, Veterinary Hospital, Animal Services expert centre.

Table 4.2 presents data on livestock and fishery production over three fiscal years, providing quantities in various units and indicating changes in percentages.

In the table the production of milk increased from 3,032,210.98 to 3,117,053.28 thousand liters. Last year saw a 2.80% increase, while there was a decrease of 3.19% from the base year. Production of meat rose from 548,774.29 to 574,812.39 metric tons. There was a 4.74% increase last year and a 4.85% decrease from the base year. Whereas, the production of Buffalo/ Buffalo Bull Increased from 201,064.08 to 209,291.05 metric tons, with a 4.09% increase last year and a 0.57% decrease from the base year. Similarly, the production of Goat/ Sheep Increased from 150,027.93 to 155,536.94 metric tons, showing a 3.67% increase last year and a minimal 0.07% change from the base year. And the production of Pig: Increased from 52,338.35 to 54,221.85 metric tons, with a 3.60% increase last year but a significant decrease of 15.83% from the base year.

Same way it shows the pattern of increase and decrease of production of meat, eggs, wool, leather and fishery in Nepalese agricultural market. The percentage of increase in production of Livestock and Fishery production provides opportunities for agricultural financing.

4.3 Credit flow of BFIs

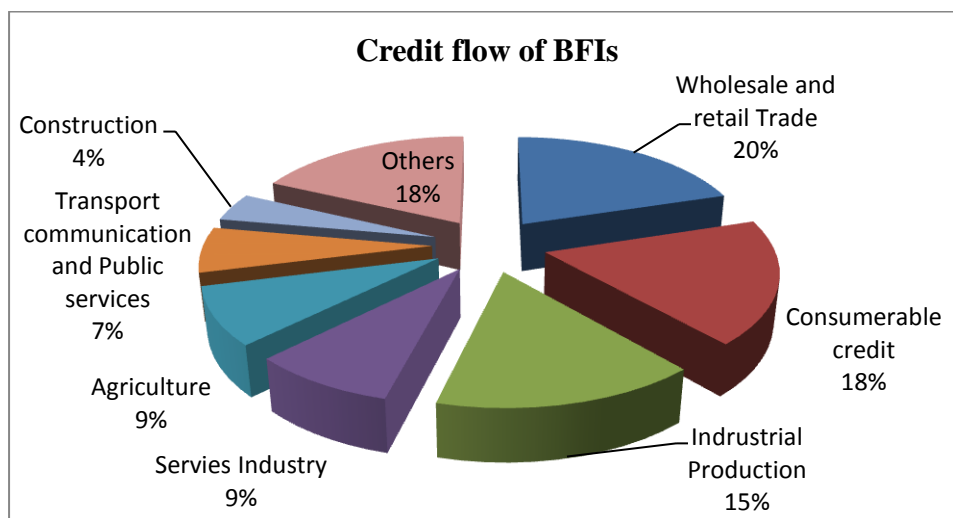
Table 4.3

Credit flow of BFIs

<i>Area Of Credit</i>	<i>Credit flow of BFIs</i>
Wholesale and retail Trade	20.20%
Consumerable credit	18.30%
Industrial Production	15.50%
Services Industry	9%
Agriculture	8.50%
Transport communication and Public services	6.70%
Construction	4.20%
Others	18%

Source: Nepal Rastra Bank, 2023

Pie chart 4.1
Credit flow of BFIs

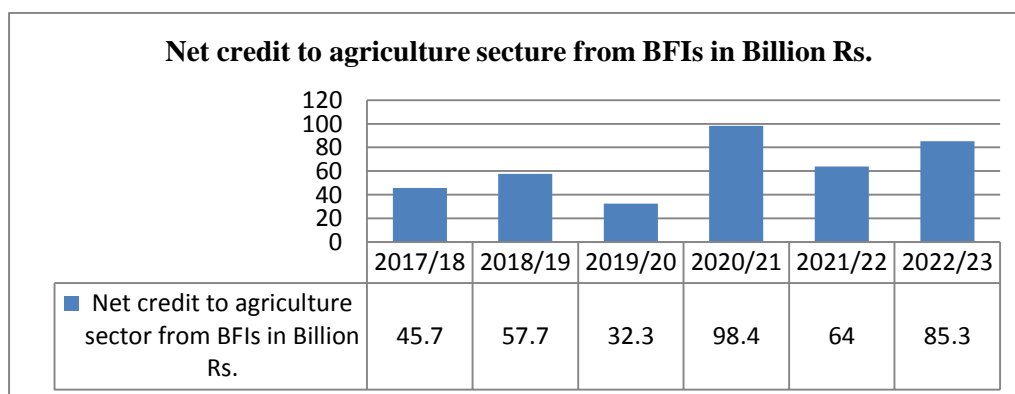


Source: Nepal Rastra Bank, 2023

The Pie chart above shows the credit flow of Bank and financial institutions where Agricultural credit is around 9% which is considered low in the agriculture-oriented country like Nepal. Similarly credit for industrial production, service industry, transportation communication and public services, construction, wholesale and retail, consumer credit, and others are respectively 15%, 9%, 7%, 4%, 20%, 18% and 18% respectively.

4.4 Agricultural Credit

Bar graph 4.2
Net credit to Agricultural sector from BFIs



Source: Nepal Rastra Bank, 2023

In the bar graph above the data provided shows the net credit extended to the agriculture sector by Banks and Financial Institutions (BFIs) in Nepal over a span of six fiscal years. Here's an interpretation and explanation of the data:

BFIs extended a total credit of 45.7 billion Rupees to the agriculture sector during the fiscal year 2017/18. The credit increased to 57.7 billion Rupees in 2018/19, showing a significant rise compared to the previous year. There was a notable decrease in credit extended to 32.3 billion Rupees in 2019/20, indicating a reduction in funding to the agriculture sector by BFIs during this period. The credit surged to 98.4 billion Rupees in 2020/21, marking a substantial increase compared to previous years, possibly due to various factors such as government policies, demand for agricultural loans, etc. In 2021/22, the credit extended decreased to 64 billion Rupees, although it remained higher than some previous years. The data for 2022/23 indicates a further decrease in credit to 23 billion Rupees. This might suggest a reduction in lending or a change in financial strategies of BFIs towards the agriculture sector.

From the above bar graph, we can interpret the data shows fluctuating trends in credit provision to the agriculture sector over the years, with notable increases followed by decreases in certain years. Fluctuations in credit could be influenced by factors such as government policies, economic conditions, agricultural productivity, and the overall financial health of BFIs. Higher credit in years like 2020/21 could indicate support during challenging times or increased investment opportunities in agriculture. Decreases in other years might reflect adjustments in lending strategies or changes in risk perceptions. Understanding these trends can inform policymakers about the effectiveness of financial support to agriculture and help in designing targeted policies to ensure sustainable agricultural growth.

Thus, the net credit to agricultural sector provides challenges as well as opportunities in agricultural financing.

Table 4.4

Agricultural Loan Rs. In Lakhs

Particulars	Aggregate						
	F/Y 2018/19	F/Y 2019/20	F/Y 2020/21	F/Y 2021/22	F/Y 2022/23	Change in last year	Change in base year
Grain Crops	16,188.57	21,610.87	43,976.33	53,429.63	54,642.79	21.50	2.27
Other Cash Crops	4,164.39	5,060.66	5,965.35	6,334.01	7,593.72	6.18	19.89
Fruits and Floriculture	1,501.05	2,094.00	3,082.21	4,891.59	6,047.06	58.70	23.62
Cold Storage	1,967.38	2,855.29	5,392.45	6,899.70	5,161.57	27.95	(25.19)
Fertilizers and Pesticides	3,751.80	3,700.81	4,349.01	3,908.71	5,806.57	(10.12)	48.55
Animal Husbandry/ Abattoirs	24,188.10	33,118.77	55,712.74	64,808.81	71,548.67	16.33	10.40
Bird Farming	28,499.51	38,607.46	44,342.09	48,376.88	52,812.73	9.10	9.17
Beekeeping	589.46	908.25	2,861.62	3,897.54	2,600.53	36.20	(33.28)
Other Agriculture and	47,392.42	58,338.63	75,244.08	69,439.03	89,273.91	(7.71)	28.56

Agricultural Services							
Irrigation	163.35	126.65	266.09	130.05	198.96	(51.12)	52.98
Forest	5,213.54	3,897.99	2,759.48	4,011.38	3,154.07	45.37	(21.37)
Fisheries related	3,477.32	5,361.06	8,935.25	12,581.79	15,011.59	40.81	19.31
Total	152,801.01	194,582.80	276,353.47	304,909.00	357,214.68	10.33	17.15

Source : Nepal Rastra Bank, 2023

This table 4.4 presents data on agricultural loans in lakhs of Rupees categorized by different agricultural sectors and services over three consecutive years. The key observations in this table are, Grain Crops, Vegetable Crops, Fruits and Floriculture, Animal Husbandry/Abattoirs, and Bird Farming sectors show consistent increases in loan amounts over the years, indicating growth in financing for these areas of agriculture. Tea/Coffee, Sanpat, Cold Storage, Beekeeping, Other Agriculture and Agricultural Services exhibit varying trends. For example, Tea/Coffee had a significant increase in 2021/22 but decreased in 2022/23. Cold Storage saw an increase followed by a decrease suggesting new or expanded financing for storage facilities.

In brief the total agricultural loans increased from 152,801.01 lakhs in 2018/19 to 357,214.68 lakhs in 2022/23, reflecting an overall growth in agricultural financing over the three-year period. This provides opportunities for agricultural financing.

4.5 Agricultural Sectoral Loan

Table 4.5

Agricultural Sectoral Loan rs. In Lakhs

Particulars	Aggregate Rs. In Lakhs						
	F/Y 2018/19	F/Y 2019/20	F/Y 2020/21	F/Y 2021/22	F/Y 2022/23	Change in last year	Change in base year
Agriculture and Forest related	149,323.7 4	189,221.78	267,418. 75	303,025. 23	342,203.0 9	13.31	12.93
Fisheries related	3,477.32	5,361.06	8,935.23	12,581.7 9	15,011.59	40.81	19.31
Agriculture , Forest and Beverage production related	164,451.1 3	186,160.31	235,504. 41	245,053. 00	276,213.2 4	4.05	12.72

Source: Nepal Rastra Bank and BFIs

Table 4.5 shows the amount of loan in each sector of agriculture. The loan is provided by BFIs. Here in this table Agriculture and Forest related loans saw steady growth over the years, with a notable increase of 13.31% from 2020/21 to 2021/22 and a cumulative growth of 12.93% from the base year (2021/22) to 2022/23.

Fisheries related loans experienced significant growth, with a sharp increase of 40.81% from 2020/21 to 2021/22 and a substantial 19.31% increase from the year 2021/22 to 2022/23.

Agriculture, Forest and Beverage production related loans showed moderate growth, with a 4.05% increase from 2020/21 to 2021/22 and a solid 12.72% growth from year 2021/22 to 2022/23.

The increase in trend for agricultural sectorial loan provides opportunities for agricultural financing.

4.6 Agricultural Outstanding Credit of Bank and Financial Institutions

Table 4.6

Agricultural Outstanding Credit of Bank and Financial Institutions

Amount in Million Rupees

Fiscal Year	Amount	Increase from previous year
F/Y 2018/19	166,038.30	-
F/Y 2019/20	201,758.40	21.51
F/Y 2020/21	290,976.40	44.22
F/Y 2021/22	350,134.80	20.33
F/Y 2022/23	372,834.10	6.48
Total	1,381,742.00	

Source : Nepal Rastra Bank and BFIs

Table 4.6.1 provides the agricultural credit of BFIs. The table shows the annual amounts and their percentage increases over five fiscal years. Each year sees growth, with the largest increase in F/Y 2020/21 (44.22%). The total amount over the period is 1,381,742.00 million rupees, indicating overall upward trends, though the increase slows in F/Y 2022/23 (6.48%). The mean amount over the five years is 276,748.80 million rupees. It provides the opportunity for agricultural finance.

4.7 Concessional Loan Status

Table 4.7

Concessional Loan Status in Ten Million Rs.

Types Of credit	Remaining Credit				
	F/Y 2018/19	F/Y 2019/20	F/Y 2020/21	F/Y 2021/22	F/Y 2022/23
Commercial Agriculture and Livestock Loan	3,219	5,411.4	10,697.8	13,923.4	14,164.1
Total concessional Loan	3,282.2	5,956.3	16,143.6	21,388.9	20,895.9
No. of Debtors for Agricultural Loan	17,203	24,763	46,057	60,545	61,494
Total No. of Debtor	18,295	32,448	104,109	147,393	148,454
Percentage of Agricultural concessional Loan	98.07	90.85	66.27	65.10	67.78

Source: Nepal Rastra Bank, 2023

Until the month of mid-January in the year 2023, commercial banks have extended a total loan of Rs.1202.93 billion, with 13.0% in the agricultural sector, While development banks are required to allocate 16 percent of the total loan investment to agriculture.

The table 4.7 provides the data of concessional loan on agricultural sector throughout the year from 2018/19 to 2022/23 is increasing rapidly with the increasing the number of debtors. Previously, the concessional loan is largely on agricultural sector but with the

change of time the percentage of agricultural concessional loan to total loan is decreasing and again increasing in the year 2022/23.

Until FY 2022/23, out of the disbursed concessional loans amounting to Rs. 208.96 billion, the highest proportion, 67.8%, was directed towards commercial agriculture and livestock, followed by 30.7% towards women entrepreneurs, and 1.5% towards other categories.

This provides both challenges and opportunities for the investors of agricultural financing.

4.8 Export

Table 4.8
Agricultural Export Rs. In Lakhs

Particulars	F/Y 2018/19	F/Y 2019/20	F/Y 2020/21	F/Y 2021/22	F/Y 2022/23	Change in last year	Change in base year
Total Export	97,109.51	97,709.11	141,124.08	200,030.96	157,140.70	41.74	(21.44)
India	62,731.83	70,108.89	106,372.05	155,222.30	106,686.40	45.92	(31.27)
China	2,109.80	1,191.18	1,016.06	808.75	1,765.79	(20.40)	118.33
Other Countries	32,267.88	26,409.04	33,735.97	43,999.90	48,688.50	30.42	10.66

Source : Nepal Rastra Bank and BFIs

Table 4.8 presents the agricultural exports to India, China and other countries. It shows that we mainly export to India and china and even though we are exporting we experience loss and decrease in export over the years. The variation on export of agricultural products provides challenges for agricultural financing.

4.9 Non performing Loans

Table 4.9
Non-performing Loans

Particulars	Amount in Million Rupees				
	F/Y 2018/19	F/Y 2019/20	F/Y 2020/21	F/Y 2021/22	F/Y 2022/23
Loan and Advances	3,270,133	4,170,584	4,709,050	4,790,081	4,840,196
Loan on Private Sector	2,801,001	3,579,832	4,025,452	4,093,297	4,143,865
Non-Performing Loans	67,444.00	77,889.00	95,409.00	109,885.00	124,186.00
Loan written off	411.00	814.00	1,607.00	93.00	148.00
Mean for NPL	94,962.6 million rupees				
Standard Deviation for NPL	20,618.76 million rupees				
Mean for Loan written off	614.6million rupees				
SD for Loan written off	589.63million rupees				

Source: Nepal Rastra Bank 2023

The mean of the Non-Performing Loans is 94,962.6 million rupees, and the standard deviation is 20,618.76 million rupees. The standard deviation, calculated as 20,618.76 million rupees, measures the dispersion or spread of the Non-Performing Loans data from their mean. It indicates how much the values deviate from the average value, with a higher standard deviation showing more variability among the data points.

The average amount of loans written off each year is 614.6 million rupees. This provides a central value around which the yearly figures cluster. The standard deviation is approximately 589.63 million rupees. This measures how much the yearly amounts deviate from the mean. A higher standard deviation indicates that the amounts vary widely from year to year, suggesting significant fluctuation in the loans written off

annually. Together, these metrics provide insight into the consistency and variability of the loan write-offs over the observed period.

The table 4.9 states that the amount of NPL of BFIs is increasing every year and about 2.6 percentage for the year 2022/23. Similarly, there is irregularity on loan written amount and is about 0.12 percentage is written off for the year 2022/23. This provides challenges for the BFIs on financing agricultural sector.

4.10 Refinance, Concessional loans and Business Continuity Loans

The investment towards re-loan provided by Nepal Rastra Bank at subsidized rate is Rs .7 billion 120 million in the end of February 2079 . 4.25 In the FY 2022/23, until the month of mid-March, concessional loans totaling Rs. 208.96 billion have been distributed to 148,454 borrowers. Out of total disbursed loans, 88.0% has been provided by commercial banks, 10.6% by development banks, 1.4% by financial companies, and 0.03% by microfinance institutions. Additionally, among the total borrowers receiving such loans, 85.7% are from commercial banks, 12.8% from development banks, 1.4% from financial companies, and 0.1% from microfinance institutions.

4.11 Agricultural Credit Situation

Credit Situation in the agricultural sector, its production and productivity, the government sector, cooperative sector and banks and financial institutions have been providing agricultural loans to the farmers since last years. Loans in the agricultural sector are increasing every year. Due to the strengthening of the presence of banks and financial institutions even in remote, remote and backward areas, the access of farmers to agricultural credit is also increasing. For the overall development of the agricultural sector, the Agricultural Development Bank was established in the past and is currently operating as a commercial bank, while Sana Kisan Bikas Micro Finance Institution Limited is also operating in accordance with the objective of providing easy and accessible access to agricultural credit to small farmers. Likewise, agricultural cooperatives have also been contributing to the expansion of access to agricultural credit. In view of the accessibility of agricultural loans to small and marginal farmers, the government has been providing subsidized agricultural loans every year. However, small and marginal farmers have not had relatively easy access to it. The population directly involved in the agricultural sector is gradually decreasing, while the production and

productivity of this sector cannot increase to the expected level, the contribution of the agricultural sector to the total domestic product is also decreasing. The average annual growth rate of the agricultural sector in the last 10 years is 2.9 percent.

4.11.1 Trends and Current Situation of Agricultural Credit

Until the mid-March of FY 2022/23, agricultural loans amounting to Rs. 411.27 billion have been disbursed by banks and financial institutions in the agriculture sector. Among the disbursed loans, 38.7 percent, the highest, has been used in agriculture and related services, 37.2 percent in livestock and related services, 21.9 percent in crop farming-related services, and 2.1 percent in other sectors. In addition to banks and financial institutions, Small Farmer Development Micro Finance Limited has provided support in the form of agricultural loans in 76 districts, excluding Humla. A total of 1,337 agricultural cooperatives and 129 farmer cooperatives have been linked, contributing to convenient agricultural loan facilitation in animal husbandry, vegetable farming, and rural enterprise sectors. Moreover, a substantial amount of agricultural loans has been disbursed through the Small Farmer Development Micro Finance Limited. Until the mid-March of 2023, a total of Rs. 32.8 billion has been invested through agricultural loans via Small Farmer Development Micro Finance Limited. Under the collaboration of the province government's cooperative initiatives, from the FY 2020/21 onwards, Small Farmer Development Micro Finance Limited has been conducting a cooperative program for the creation of production and employment. The program has been in operation since the FY 2020/21 and, until mid-March of FY 2022/23, a total investment of Rs. 1.7 billion has been made. Until the mid-March of 2023, a similar program has attracted investments of Rs. 1.62 billion, contributing to agricultural loans under the savings, share, and retained fund of agricultural cooperatives amounting to Rs. 88 billion.

In summary, the data provides insights into the financial support extended by BFIs to the agriculture sector in Nepal, highlighting both the variability and importance of credit flows in supporting agricultural activities and rural livelihoods.

CHAPTER – V

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Agricultural financing in Nepal faces several challenges but is crucial for the country's predominantly agrarian economy. Farmers in Nepal primarily rely on formal and informal sources of financing. Formal sources include commercial banks, development banks, and cooperatives. Informal sources often involve money lenders and local savings groups. The Nepalese government promotes agricultural financing through various schemes and subsidies. These include subsidized loans, interest rate concessions, and insurance coverage for crops and livestock. Despite efforts, agricultural financing encounters challenges such as limited access to credit in remote rural areas, high interest rates from informal lenders, inadequate financial literacy among farmers, and seasonal fluctuations affecting repayment capabilities.

Microfinance institutions play a significant role in rural areas, providing small loans and financial services tailored to the needs of smallholder farmers and agricultural cooperatives. Improved access to finance can enhance agricultural productivity, facilitate adoption of modern farming practices, and mitigate risks associated with climate change and market fluctuations. Nepal continues to work towards enhancing agricultural financing mechanisms, promoting financial inclusion, and integrating technology to streamline processes and improve access to credit for farmers.

In summary, while agricultural financing in Nepal faces challenges, ongoing efforts by the government and various financial institutions aim to improve access to credit and financial services for the country's agricultural sector, which remains vital for its economy and food security.

5.2 Conclusions

In conclusion, agricultural financing in Nepal is critical for sustaining the country's agrarian economy and improving the livelihoods of rural communities. While there are challenges such as limited access to credit, high interest rates from informal lenders and seasonal variations impacting repayment capacities, significant efforts are underway which can be termed as opportunities are government initiatives supported by microfinance institutions and cooperatives, aim to enhance financial inclusion, promote modern agricultural practices, and mitigate risks faced by farmers.

Also, looking ahead continue investment in agricultural financing infrastructure, improved financial literacy among farmers, and leveraging technology for better financial service delivery will be key. These efforts not only support increased productivity and resilience in agriculture but also contribute to broader economic growth and food security goals in Nepal. By addressing these challenges and leveraging opportunities, Nepal can further strengthen its agricultural sector and uplift rural livelihoods sustainably.

Moreover, agricultural financing in Nepal faces challenges such as limited access to credit, high interest rates, and seasonal variations affecting farmers' repayment capabilities, ongoing efforts and initiatives show promise. The government, alongside microfinance institutions and cooperatives, plays a crucial role in expanding financial inclusion and promoting modern agricultural practices.

The future of agricultural financing in Nepal hinges on enhancing infrastructure, improving financial literacy among farmers, and harnessing technological advancements for efficient service delivery. These steps not only bolster agricultural productivity and resilience but also contribute to broader economic growth and food security objectives. With continued investment and strategic interventions, Nepal can pave the way for a more robust and sustainable agricultural sector, ensuring better livelihoods for rural communities across the country.

5.3 Recommendations

On the basis of major findings drawn in the fourth chapter and the conclusions drawn in this chapter, the following recommendations have been provided for the enhancement of agricultural financing.

- Increasing the outreach of formal financial institutions such as commercial banks and development banks to remote rural areas through branch expansion, mobile banking, and agent banking services.
- Exploring policy measures to reduce interest rates on agricultural loans, particularly for smallholder farmers, to make credit more affordable and accessible.
- Implementing programs to enhance financial literacy among farmers, educating them on financial management, loan utilization, and the importance of timely repayments.
- Strengthening agricultural cooperatives by providing them with technical assistance, training, and access to financial resources to better serve their members' financial needs.
- Expanding agricultural insurance coverage and promote weather-indexed insurance schemes to protect farmers against natural disasters, crop failures, and market fluctuations.
- Fostering the use of digital technologies such as mobile banking, fin tech solutions, and digital platforms for loan disbursement, repayment, and agricultural advisory services.
- Improving rural infrastructure such as roads, storage facilities, and irrigation systems to enhance agricultural productivity and reduce post-harvest losses, thereby improving farmers' credit worthiness.
- Advocating for supportive policies and regulatory frameworks that incentivize financial institutions to lend to the agricultural sector, including incentives for sustainable farming practices and climate-smart agriculture.
- Establishing mechanisms to monitor the effectiveness of agricultural financing programs, ensuring that they reach the intended beneficiaries and achieve their objectives.

- Fostering collaboration among government agencies, financial institutions, development partners, NGOs, and research institutions to create synergies and maximize impact in agricultural financing initiatives.
- Developing tailored financial products that meet the diverse needs of different segments of farmers, including women farmers, youth in agriculture, and marginalized communities.
- Providing training and capacity building programs for staff of financial institutions to better understand the needs and risks associated with agricultural lending.
- Supporting farmers in accessing markets by facilitating market linkages, providing market information, and supporting the development of value chains that ensure fair prices for agricultural produce.
- Encouraging adoption of sustainable agricultural practices through incentives and support for organic farming, integrated pest management, and conservation agriculture.
- Strengthening FPOs by providing them with technical assistance, managerial support, and financial resources to enable them to aggregate produce, access markets, and negotiate better prices.
- Addressing land tenure insecurity issues by promoting land reforms and providing farmers with secure land titles as collateral for accessing formal credit.
- Extending financial services to agribusinesses involved in processing, value addition, and agricultural inputs supply to stimulate growth in the agricultural value chain.
- Fostering partnerships between government agencies, private financial institutions, and agricultural enterprises to leverage resources, expertise, and innovation in agricultural financing.
- Developing credit risk management frameworks to assess and manage risks associated with agricultural lending, including crop-specific risks and climate-related risks.
- Investing in research and innovation in agricultural finance to develop new financial products, technologies, and approaches that better serve the needs of farmers and agribusinesses.

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kathmandupost.com**paper text:****CHAPTER - I INTRODUCTION 1.1 Background of the Study** High Credit flow in agricultural sector is the

major driving force for the advancement and commercialization of agriculture as it helps farmers to initiate new ideas, increase capital and production (Jaen, 1964), embrace modern technology improved (Schumpeter, 1911), and can adjust with the change in external environment (Musembi, 2019). Also it helps farmers to receive agricultural inputs as fertilizers, seed, and equipments on time (Saboor et al., 2009) and assists people who lack finance to establish new agricultural business. Thus, it increases agricultural productivity, agricultural revenue and helps to improve living standard of farmers' (Jan & Khan, 2012). Due to a lack of finance, farmers are forced to rely

on less efficient traditional methods of production, rely on the monsoon

season since there isn't enough irrigation, and suffer a shortage of fertilizers and better seeds during the planting season. As a result, agriculture is now mostly a subsistence industry. In nations like Nepal, where agriculture accounts for a fourth of GDP (23.13% to be