

CHAPTER I

INTRODUCTION

1.1 Background

Nepalese economy is an agricultural based economy. It is regarded that agricultural is the backbone of Nepalese economy. Agricultural sector plays the vital role for the socio-economic improvement of the nation. More than 80 percent of total population are engaged in agricultural sector and more than 36 percent of gross domestic products (GDP) is contributed by agricultural sector annually (NRB, 2008/09). The economic development plans of the government show that agricultural sector has continued to occupy the top most priority in the development programme.

To increase the economic growth rate of the underdeveloped country like Nepal, it is necessary to increase the agricultural production. The enhancement of the agricultural production is also necessary in order to meet the basic feeding needs for the increased population as the population of Nepal is increasing in alarming rate. Similarly, more than 80 percent industries are based on agricultural sector. This indicates that the agricultural sector plays the predominant role for the all -round sectoral development of the country.

Agricultural production is not sufficient enough to supply adequate food and clothing. It may be noted that no significant progress has been achieved in agricultural production. Growth rate of agricultural output has been 3 percent per-annum in 2008/09 (NRB, 2009). If Nepal is to solve the problem of food shortage, effective plans and efforts have to be made for the improvement of agricultural production.

Credit is often a key element for the improvement of agriculture. As agriculture is the main occupation of rural areas, there are no other alternatives except improving itself. The agricultural credit helps people for using improved seeds, modern technology and other related components. Moreover, Credit removes a financial constraint on the one hand and may facilitate the adoption of new technology on the other.

The history of institutional credit systems is relatively new in Nepal. Before the democratic rule in Nepal, no planned development is done for providing credit. In the absence of institutional credit system, people borrow from village money lenders. The abuse of the private money-lending system is not unknown. Generally, the money-lenders charge high rate of interest. Rural indebtedness is often the reason for borrowing from the money-lenders for the expenses of marriages, funerals and other social needs.

Unproductive borrowing, exorbitant rate of interest as well as the cultivator's low income made him/her unable to repay the loan. The growing volume of debt led to the transfer of land from the farmer to the money-lender. The outcome of high indebtedness was not only the loss of land for the actual tiller but also resulted in large scale migration of people from one part of the country to another and also outside the country, especially to India.

The cooperative movement was launched in 1956. The movement became popular only after the advent of planning in Nepal. It was recognised in the First Five Year Plan that If the cooperation movement is developed in a healthy and efficient manner, it will progressively support to the raising of living standards, and develop among the members of the cooperative societies' versatility, capacity for organisation, self reliance, self respect, and ability to conduct their own affairs in an honest and democratic way.

At the very beginning of the co-operative movement, several cooperative societies were set up in different parts of the country under the supervision and guidance of the cooperative department of the government. However, there was a lack of an apex institution to strengthen the activities of the cooperative societies and meet the financial requirement of the farm families through these societies. Such an apex institution is better able to attract funds to a much greater extent and to constitute a link between the cooperative movement and the money market, government and other public bodies. However, a cooperative Bank was established only in the year 1963 as a super structure of the co-operative movement, which started its actual operation in 1964. The Bank opened its branches and dealt through the branches directly with the co-operatives societies.

The Co-operative Bank was later converted into Agricultural Development Bank in 1967. The reason for this conversion is "In order to meet the overall credit requirement of agriculture and

agro-industries and also to make more effective mobilisation and utilisation of savings at the national level the cooperative Bank was converted into agricultural Development Bank" (NRB, 2002:430). It was also indicated that the cooperative bank was not extending loans to individual farmers outside the cooperatives. Thus, the scope of the cooperative Bank was very limited and inadequate for fulfilling the requirement of agricultural development.

After the conversion of co-operatives to Agricultural Development Bank, it extends loans not only to individual farmers but also to companies and other types of institutions engaged in agricultural development viz. agro-trade, industries and irrigation for short, medium and long-term duration.

1.2 Statement of the Problem

Nepal has been facing the issues of poverty as a great problem. It spreads all over the country. The majority of the people live in rural areas and mostly depend upon the agriculture. But the population is increasing day by day in alarming rate and on the other hand, the productivity of land remains constant. Peasants follow the traditional pattern of agricultural operation, which has led to decline fertility of soil. There is lack of irrigation, fertilizers, agricultural credit, modern technology and improved seeds in agricultural sector. Moreover, the quality of cultivable lands is declining due to the natural calamities like floods, landslides, soil erosions etc. The pressure of population on land is responsible for deteriorating condition of agricultural sector. As a result of all the factors occurring in agricultural sector, the productivity of land has been declining which has affected the living standard of the poor to a great extent.

In rural areas of Nepal, there exists two types of unemployment. They are seasonal and semi employed. The living standard of farmers is very low and their ways of living are dominated by poverty. The chief reason for such situation is especially because of the lack of credit facilities, lack of alternative employment opportunities outside the agricultural sector, lack of technical skill etc. The prevalence of such problems further affects the living condition of the poor.

In this context, it is essential for all the policy makers, government and conscious people to know the significance of rural credits in Nepalese economy and it is also necessary that the problem faced by rural financing system should be reduced or eliminated. For this, many research studies and human efforts are required to give the actual picture of the rural economy and the nature of financing activities by identifying the various causing factors behind it. So, it is hoped that the present study will be able to analyze the contribution of rural agricultural financing that helps for the reduction of poverty and for the improvement of living standards of rural people.

1.3 Significance of the Study

Nepal is an agricultural country. Development is highly dependent on the improvement of agricultural sector. It is the agricultural sector that provides food and clothing to the people as well as many raw-materials for the industries established in the country. Government's annual budget is largely supported by land revenue.

The main problem of economic development in Nepal is related to the agricultural sector. Because the major areas of policy concerned, at least in the initial stage of the economic development such as level of income, investment, capital formations, employment, income distribution and balance of payments depend heavily on the performance of this sector. The development plans in Nepal have recognized the progress in the agricultural sector as a strategic element in the development process.

It is clear that effective financing in agriculture plays a vital role of institutional source of credit which provide productive loan to the farmers. It is recognized that financial institutions are effective instrument to mobilize resources. So, it has been widely accepted that the economic activities of a country are greatly influenced by the development of a sound credit systems.

As agriculture is the core of Nepalese economy, raising the living standard of farmers is not possible without improving the village condition and for improving the village, agricultural development through appropriate credit facilities is must.

Due to the various factors such as heavy population pressures, unproductive expenditure, poor agricultural condition and the ill health of farmers, the saving propensity of Nepalese farmers is very low. The majority of people can not save. They have to depend to the money-lenders for their required capital but these money-lenders took advantage of this situation and charge high rate of interest. Thus majority of Nepalese farmers are always in debt.

In this serious situation, organized agricultural credit as a finance can play a crucial role to pull the economy from chronic stagnation into the path of development. So, it is clear that agricultural credit is a necessary for proper functioning of present-day production and credit has been called the life blood of modern economic society.

1.4 Objective of the Study

Role of Agricultural Credit in Rural Development has been selected as the subject matter of this dissertation. The specific objectives of this are mentioned as below:

- a. To analyse the credit receiving system in the study area.
- b. To account the different sources of agricultural finance in the study area.
- c. To identify the impact of credits on agriculture in the study area.

1.5 Limitations of the Study

This study is undertaken to meet the partial fulfilment of the requirement for Master of Arts in Economics and is thus, naturally constrained by the time and budget limit. This study includes the present situation of rural especially in agricultural credit in Tupche VDC. It may or may not be valid with other areas.

CHAPTER II

REVIEW OF LITERATURE

Agricultural financing system has significant role to face the burning problems of underdeveloped countries like Nepal by providing the facilities of credit required to peasants. Many writers', researchers have been attracted to study about rural sector and contribution of agricultural financing for the improvement of socio-economic status of people. A large number of literatures related to this field are available. Most of the available literatures seem to deal adequately in the issue of agricultural credit system. This study has also tried for the focussing on characteristic, procedures and impacts in agricultural financing system. So, some of the available literatures that directly or indirectly related with present study are reviewed as follows:

2.1 Theoretical Literature

Todaro (1964) has explored about the role of credit in farming. He found out that financing of small and subsistence farmer has always been a problem for the cooperatives and more for commercial banks, who recently entered in the field of agricultural financing.

Zevering (1974) agrarian reform carried out in Nepal has been the compulsory saving scheme for financing credit needs combined with an attempt to clear rural debts and mortgaged land, By fixing rates of interest at 10 percent (with retrospective, effect), scaling down outstanding debts and providing a continuous means of land arbitration through land reform (with finding powers of decisions) traditional source of private credit would probably largely or go underground. The aims of the compulsory saving scheme were, therefore to provide a find at the village level form which most if not all credit requirements could be financed.

Admas (1978) concludes that the majority of the credit needs of rural poor in many villages are met by informal source such as merchants, money lenders, landlords, friends and relatives. There is a wide range of arrangements in these informal loans in interest rates, discount rates, length of loan, security and purpose of credit. The rate of interest varies from source to source borrower to barrower, purpose to purpose and by length and type of securities.

Joshi (1978) tries to explain about the real situation of rural credit. We agree that costly for investment in new technology in agriculture reveals that in the rural areas the opportunity cost of capital is high. The risk associated with production, price and default is also high.

On the other hand the working relationship between the informal lenders and borrowers is very close. They often live in the same village and they knew each other's financial ability. The needed credit is negotiated and rapid during flexible work hours. The interest and principle is paid back in cash or kind. The loans are provided for consumptions as well as production purpose. The length of credit is long depending upon the needs of barrower. Since, they depend on their own equity capital, the supply of loan-able funds are often very limited.

Joshi points out that in a few instances; credit has been used by money lenders to turn small farmers in the tenants or their own land in Nepal. But in general the higher rate of interest charged by the money lenders reflects high opportunities cost of capital in rural areas and the high quality of the services provide to borrowers.

Alamgir (1979) tries to justify that any government insists on providing institutional credit to farmers. The main objective in providing institutional credit to farmers is to encourage them to adopt improved technology and to increase production. On the other hand, commercial financial institutions are reluctant to tend to agriculture because the risk associated with the amount borrowed by farmers is small and there are large number of small farmers borrowers. It is, therefore, costly to administrate a large number of small loans. Furthermore, the small farmer generally live in the country side, often at a great distance from the lenders cost significantly. Co-operatives are the most common institutional source of credit for farmers in many countries. Co-operatives are legal bodies registered under a government degree. Their operating funds come from state of shares to each member. Additional funds, when needed, are borrowed from commercial banks or transferred from vertically and horizontally integrated co-operatives. Besides providing credit, many co-operatives are also engaged in the marketing of agriculture inputs and consumer goods.

Nair (1991) has discussed about rural credit in India. He said that loan disbursement is not development, defaulters or non payment of loan by borrowers variously described as credit delinquencies overdue in India. A major causality was quality of loan portfolio as has been evident from the mounting over dues. The nineties would therefore need to be a decade

devoted mainly to reconstruction and development so that before the end of the decade therefore is strong, healthy and vibrant rural credit system.

Pokharel (2000) has published a research article “Financial Sector Reform and New Challenge” in the journal Agricultural Credit Bio-Annual Journal. He reflects that the re-restoration of democracy liberal market economy approach took of momentum. In his article, he tries to analyze some important positive signals as emerged after liberalization after restoration of democracy.

Important prospective signal, 1992 on wards financial institutions banking, cooperatives have been increased with its institutional capabilities flow of rural credit contributed the rural economy. At the same time, Gramin Bank have also established by the government to expand credit and saving in the rural area. At present 800 location with about 60 percent in the rural area have been working. These Gramin Bank collected about Rs. 9 billion at fast rate. At the same time, commercial banks have increased deposit by 11.9 percent.

2.2 Empirical Literature

Nepal Rastra Bank (1981) examines the income, level of consumption and level of employment situation of Nepal. Gini-coefficients are used to compare some developing countries with Nepal. This survey shows that there was vast income inequality in Nepal. So, National Planning Commission (1998) has aimed that, the percentage of below the poverty line will be reduced from 42 to 32 by the end of the 9th plan. (NPC, 9th Plan).

Food and Agricultural Organization (1990) has found out that the expansion of agricultural credit alone does not always bring about an adequate increase in agricultural production. In initial stages of agricultural development, credit to farmers must have a predominantly consumptive character. This phenomena arises from various factors such as poverty reflected in lack of food reserves, improvidence, crop failures and other calamities, a rapid increase in population, the traditional customs of rural life which often involve heavy expenditure for religious and social ceremonies etc. In the second stages of agricultural development, the productive elements in agricultural credit gradually increase. As long as agriculture is not a business but a way of life, cost price is a sheer fiction, and household and farm expenditure an inextricable knot, and it will be impossible to draw a clear border line between credit for consumptive and credit for productive purposes. It follows that the proper utilization of credit

by the small and medium size farmer is a complex problem which can only be solved by importing systematic education and by changing the living conditions

Jha (1978) has attempted the situation of Nepal as compared with some of the other countries. Credit from private source accounted for as much as 92 percent of the total amount supplied in 1969. Because of agro based economy of Nepal, the relative importance of agriculture is more than in other countries. Therefore agricultural productivity for overall development of country must be increased through the introduction of new technique of cultivation. But the farmers are unable to change their existing farming technique because of their poverty change in farming practices for changing production can be done through the provision of credit. So credit can be taken as a tool to increase production and raise the quality of what is product. Hence the provision of easy timely and adequate loan by developing credit institution in Nepal is very important.

Pokharel (1987) has assessed the role of Small Farmer Development Programme (SFDP) and its impact in the rural area of Nepal. The study sums up some factors which are more contribution to poverty such as lack of education, low size of land holding, large number of family, traditional farming practice, unequal distribution of income, ill health etc. The study is based on primary data.

Shrestha (1989) has analyzed the impact of ADB/N of loan disbursement, repayment and outstanding to understand how for ADB/N has changed the traditional formers practice. To find out the successfulness of ADB/N to provided facilities to small farmers etc.

She has found out that the economic condition of small farmers were too poor because of the low productivity of land, it could be improved through technological change in her life;

It is stated that the productivity was high. The production of paddy, wheat, maize, tobacco, potato, vegetable etc. has increased after the introduction of tractors.

Pradhan(2000) has found the development of infrastructure must anticipate such social and economic change. Her objectives of the study were to analyze the ratio of the agricultural credit proportion according to the demand of the needy persons in the particular sector. Mass

education as well as developed transport and communication are pre-requisites to facilitate the process of agriculture development.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Methodology

The objective of the research requires both qualitative and quantitative information. There are various aspects to understand the present situation of agricultural (rural) credit in the rural area of Nepal but the study is mainly based on limited area with certain indicators such as socio-economic status and development activities

3.2 The Study Site

Tupche VDC of Nuwakot district is selected for the study purpose. This VDC is one of the 61 VDCs in Nuwakot District and it is the place which is at the mid of rural areas. As this is a case study of Tupche VDC, Nuwakot, it is not necessary to represent the other rural areas of Nepal.

3.3 Sample Design and Sample Size

The research is descriptive. Local people are the main sources of information. Therefore, it is necessary to consider needs, interest and perceptions of local people. The reliable and accurate socio-economic data were collected only from actual representatives at the household level.

To fulfil the specific objectives mentioned earlier, a sample survey with structured questionnaire was conducted. As it is a case study, it is not possible to count all the households. The study site i.e. Tupche VDC was selected in terms of two reasons. On the one hand, financing in the rural area was comparatively more in this VDC than other and on the other hand, this is the researcher's own working site so that it would be accessible for the research. Out of 1116 households of this VDC, 90 households were selected as sample households. The selection of these 90 households was done on the basis of sample survey. While doing sampling, geographical location and socio economic aspect was highly valued.

Moreover, in order to find information about different sources of agricultural credits, to analyse the credit receiving pattern, selection of sampled households were highly focused. While selecting the study area, Special priority like geographical landscape, socio cultural and religious aspect was given. While selecting ten households in each ward, former representatives were asked about the socio-cultural and ethnic condition of the ward so that this research could bring the accurate information of the study area. Similarly, the personnel of Tupche Village Development Office were also asked for their opinion and suggestion while selecting the area and doing field work.

The interview was conducted with the household head, a member who manages most of the things in family. In addition to it, special interview was also conducted with the members of village development committee, social institutions working in the study area like clubs SFDP personnel, Manager of Hamro Sahakari and so on.

3.4 Techniques Adopted to Collect the Data

This study of research work is mainly based on both primary and secondary information. The following techniques are used to collect the data. Primary data were collected from direct field survey of household, focus discussion, individual interview and informal discussion.

3.4.1 Field Survey

The study is mainly based on observation and household survey. The questionnaire was designed to obtain information on the socio-economic characteristics of farmers and to extend their financing structure in the economic activities. Moreover, field survey was done with structured questionnaire that tried to find the information about different sources of agricultural credits, credit receiving patterns and impact of credit on agriculture among the sampled households.

3.4.2 Observation

This method was used to collect relevant information directly. It was useful to identify the current situation in the research area. This also helped to verify the statements made by the

respondents with designed questionnaire. While doing field survey, improvement in agricultural sectors like commercial vegetable farming, poultry farming etc are easily seen.

3.4.3 Secondary Source

Secondary Sources are also used. The secondary data are collected from various sources i.e. village profile, District Development Committee Office (DDC/O) documents, Agricultural Development Bank (ADB/N), different publications of Nepal Rastra bank. Moreover, some secondary data also taken from internet and other related publications.

CHAPTER IV
A Brief Survey of Agricultural Credit in Nepal

4.1 Importance of Agriculture in the Nepalese Economy

As agriculture is the main occupation, it occupies a key place in national economy. In other words, agriculture is the backbone of the Nepalese economy. In comparison to other sectors, agricultural sectors provide more engagement to the people. About 36 percent of the GNP is contributed from this sector. (NRB 2008/09)

Table 4.1
Area under Principal Food Grains and Cash Crops (In '000 Hectares)

S.N.	Crops	2006/07	2007/08	2008/09	Percent Change	
					2007/08	2008/09
1.	Cereals and other Crops	4040.0	4152.2	4141.6	2.8	-0.2
	a. Paddy	1439.5	1549.3	1556.0	7.6	0.4
	b. Maize	870.4	870.2	875.4	0.0	0.6
	c. Wheat	702.7	706.5	695.0	0.5	-1.6
	d. Millet (kodo)	265.2	265.5	266.0	0.1	0.2
	e. Barley	26.6	26.1	25.9	-1.8	-0.8
	f. Potato	153.5	156.7	157.8	2.1	0.7
	g. Sugarcane	64.0	63.0	58.1	-1.7	-7.7
	h. Oil seeds	184.2	180.3	181.3	-2.1	0.5
	i. Tobacco	2.7	2.7	2.5	-1.5	-6.7
	j. Jute	11.7	11.6	11.4	-0.8	-1.6
	k. Pulses	319.6	320.4	313.2	0.3	-2.3
2	Vegetables, fruits and Spice crops	271.7	289.0	304.7	6.4	5.4
	a. Vegetables	198.3	208.1	221.4	4.9	6.4
	b. Fruits	56.9	63.4	65.3	11.4	3.0
	c. Tea	16.5	17.5	18.0	6.1	2.9
	Total 1+2	4311.7	4441.2	4447.3	9.2	5.2

Source: NRB, Economic Report 2008/09

The table 4.1 shows the land areas under principal food grains. The measurement of land is in hectare. It also shows the cereals and other crops and vegetables crops. The area using for different food is increasing in the given years. The area used for cereals and other crops in the year 2006/07, 2007/08 and 2008/09 is 4040, 4152.2 4141.6 hectares respectively. Similarly, the area used for vegetables, fruits and spices crops in the year 2006/07, 2007/08 and 2008/09 is 271.7, 289.0 and 304.7 hectares respectively. Agricultural is the main source of livelihood and employment of vast majority of population in Nepal. Nepalese agriculture is structurally traditional in its characteristics and monsoon plays vital role to determine the level of agricultural production. Food crops alone occupy around 90 percent of the total cultivated area. The area left for non food crops consisting of those providing raw materials for industries like sugar, tobacco, oil, etc. This shows that a major portion of the land is utilized for growing food crops.

Table 4.2
Sector wise Production Distribution

(In percent)

S.N.	Production sector	Growth Rate		
		2006/07	2007/08	2008/09
1.	Agricultural	1.0	4.7	2.2
2.	Mining and quarrying	1.5	2.8	2.5
3.	Manufacturing	2.6	0.2	-0.5
4.	Electricity gas and water	13.0	3.7	-1.1
5.	Construction	2.5	3.1	5.7
6.	Restaurant and Hotel	3.5	8.5	5.1
7.	Transport/communication/storage	4.6	7.1	7.8
8.	Finance and real state	11.8	4.4	4.5

9.	Community and social services	19.2	11.1	6.1
	Real GDP at factor cost	59.7	45.6	32.3

Source: NRB, Economic Report 2008/09

The table 4.2 shows the sector-wise production distribution growth rate in percent. The growth rate in agricultural contribution in Nepalese economy is 1.0% in the year 2006/07. It is increased to 4.7 in the year 2007/08 and remained 2.2 in the year 2008/09. In comparison to the year 2007/08, the growth rate in agricultural production has decreased. Agricultural commodity contributes about 60 percent of country's total export. So, agricultural sector is the major source of national income. Development of agriculture is very important for the sake of economic development and there by holistic development as a whole.

In fact, economic development in Nepal should be followed by agricultural revolution as it plays crucial role in Nepalese economy in many ways. It is well known that agriculture is the major source of supporting raw materials for the agro-based industries such as Jute, Sugarcane industries, rice mills, flour mills, cigarette factory, etc. Furthermore, agriculture has played a significant role in the industrialization of the country. The pressure of working population in agricultural sector can be replaced to industrial sector that is run by providing raw materials from agricultural sector.

One of the most important problems of underdeveloped countries like Nepal is the need to step up the rate of growth of agricultural production in order to meet the need of rapidly growing population. In this context, the importance of agricultural financing increases in the course of time.

4.2 Importance of Agricultural Financing in Nepalese Agriculture

In Nepal, large number of people is engaged in agriculture. Agricultural development is one of the important sectors of the total economy that influences the overall economic development of a country. Moreover, agricultural contribution directly affects the overall rate of growth and development. Historical records show that no country has moved from chronic stagnation into the take-off stage of economic development without achieving substantial

growth of agriculture production. So, top most priority should be given to this sector while preparing national development plans.

But the question here is how to change the traditional pattern as cultivation of the Nepalese farmers, who have very small capacity to save as a result of the low level of income. The low income is the cause of poor productivity it is also due to lack of sound investment policies in land and cultivation practices. Since farmers' own funds are not sufficient for the purpose, credit becomes indispensable. Farmers must spend additional money on improved seeds, fertilizers and agricultural equipment to increase agricultural production. The role of agricultural development over a long time in the past, private sector or the private credit agencies have played the dominant role, while the institutional arrangement for the supply of credit did not exist. Institutional agricultural financing was first started in the year 1954/55. In addition to the private money lenders, Nepalese farmers at present are conceived of getting agricultural credit from the ADB/N, and through the media of cooperatives in village level. The existence of the various lending agencies do not do guarantee adequately and effective supply of credit. There should be some medium in the village level to channalise credit to farmers. In this background, economically established co-operatives societies should be the best institutions to provide agricultural credit at the primary level. All the cooperative organizations have not been successfully run. For this the government should help to run them properly.

Most of the Nepalese farmers are below subsistence level. This is really critical situation and all of us should pay our attention to think over it's seriousness for this; farmers should be supervised very closely along with the provision of necessary inputs. The government should heavily subsidise to the financial institution which handle the responsibility of providing the financial requirement to farmers.

If the provision of timely credit is provided to the farmers, output can be increased. The amount of credit extended and the term and condition under which it is extended have a significant role. Agricultural development will certainly call for the use of more credit. The survival of agricultural economy in the future will depend mainly upon whether the farmer will have sufficient credit properly or not.

In terms of Nepal agriculture and credit are co-related term. It is because the general farmers are so poor that they are not able to provide sufficient finance for modern methods of cultivation. Credit is needed in developing countries where there is the existence of traditional agriculture. Generally the farmers of traditional agriculture feel that it is bad to be in debt, so they do not borrow. But prohibiting credit is much more harmful to them than to accept it.

As already stated, agriculture is backbone of economy and it is needed to be improved. But peasants are mostly poor and illiterate. They have no sufficient credit facilities due to their small scale business. Monsoon still plays a vital role in determining prosperity of agriculture. Large number of small sized land holding, low level of income of the subsistence sector, uncertain of returns in terrace farming in the hilly regions and indebtedness among farmers have complicated the problems of agricultural sector in Nepal.

4.3 Sources of Agricultural Credit

4.3.1. Traditional Sources of Credit

Non-institutional credit agencies are known as unorganized traditional sources of credit. It is very necessary to highlight the role played by non-institutional credit agencies in agricultural financing. Those types of non-institutional agencies such as money-lenders, landlords, agricultural traders, friends, relatives and so on provided the financial needs for the farmers. In Nepal, private agencies, village money-lenders, landlords, agricultural traders, friends and relatives are the main sources for the rural agricultural financing. A village moneylender is people who finance within the village and engaged in some other occupation.

Most of the small farmers are fully affected by this sector. The private credit system lending process is the most popular credit system from that of the early period in Nepal because of disbursement system of private sector may be either in cash or in goods with or without securities. They usually give loan for short period. For long period loan, they demand collateral like gold, silver and land. The moneylenders can easily recollect their money because they are the powerful person of the village. The money lenders charge high rate of interest as taking loan is the compulsion of the farmers. It ranges between 10 to 60 percent. Nowadays, the rate of interest in village level is decreasing due to the establishment of

different commercial banking. The main causes of high rate of interest charged by village moneylenders are shortage of money and lack of institutional credit. The other unorganized sources of agricultural credit in Nepal are given below.

Manka-Jya is a type of co-operative system is mostly found in Kathmandu valley. In Newari language, MANKA means co-operatives and JYA means work. The MANKA-JYA is known as co-operative work. In this system, agricultural operations like cultivation, sowing and harvesting is done altogether. Generally, it is applicable in every village of Kathmandu valley. They select one chairman from Manka-Jya called Thakali and one assistant as a vice chairman. All the management is properly run by them. The objectives of the group include distribution of farm work among the members keeping in view of the total manpower requirements.

Dharma Bhakari, another traditional means of credit, is the most popular throughout the country. In this system, every person of the village is to keep some of the product in the Bhakari after harvest. This total quantity of grain is collected and when farmers need loan they can take loan from these institutions. Loans are advanced by the grain bank only to these villagers who have contributed to the bank and agree to repay the loan with interest. The rate of interest varies from 10 to 25 percent per annum. This amount is also added in the fund of Bhakari. This is kept under the supervision of the elected chief of the village.

Parma, another type of important semi-organized credit distributing agency, is practiced throughout the country. Total earnings are distributed in proportion to the labour contributed. In case of members' additional work, the prescribed common minimum additional payment is made according to the market rates.

Dhikuri is first started from Thak region in Mustang District of Nepal. Now it is applicable in different parts of the country. In order to enable the member of the client to set up their own business, Thakalies, a trading community, organize themselves into Dhikuri contributed certain amounts of money. The head of the group is known as Glogha. Loan is advanced to members at 10 percent interest. In the western part of Kathmandu, more than hundred Dhikuries have been successfully working.

4. 3.2 Modern Sources of Credit

Until 1954, the farmers had the only merchants and moneylenders for loans. The government, assuming development is not possible without having rural development, has set forward the program 'Ek Gaun Ek Sahakari' so as to collect saving and forming capital. When Nepal becomes free from Rana regime the government felt that the cooperative would be the best medium to serve the credit facilities to farmers. So, the government started cooperative movement in 1954/55. Cooperative Bank established in 1963 and Agricultural Development Bank in 1967.

After the establishment of different commercial banks, credit disbursement has flourished and it has positively impacted in agricultural sector. Furthermore, in 1976 different banks like Nepal Bank Ltd., Agricultural Development Bank and other commercial financial institution started providing loan to the needy peasants. Now, lots of commercial banks are set up and providing credit for various purposes. Moreover, many co-operatives are also operating for saving collection and loan disbursement.

CHAPTER FIVE

Results and Analysis

5. Analysis of collected information

This chapter discusses the socio-economic characteristic of the respondents of the particular village where this information are collected. The socio-economic characteristics consists family size, population composition, age and sex structure, economic situation, land holding size and credit receiving pattern, education and its relation to the credit etc.

5.1 Socio Economic Condition of Study Area

5.1.1 Geographical location of study area

There are 61 VDCs and one municipality in Nuwakot District. Among those VDCs, Tupche is one of them. It is situated on the bank of famous Trishuli River. Tupche VDC is surrounded by Manakamana, Deurali, Bidur Municipality and Gerku VDC in the north, west, south and east respectively. It is located at 79 Km. north-west of Kathmandu, the capital city of Nepal and it is only 10 km ahead (north) from Bidur, the headquarter of Nuwakot District.

This VDC has tropical and sub-tropical monsoon climate which is characterized by serious cold, heavy fog and partial rain in the winter. During the summer season, the maximum temperature reaches 36⁰ C and the minimum temperature falls down to 4⁰ C in winters. It receives 3000 mm rainfall per year but 80 percent of rainfall is in the monsoon that is June to August.

5.1.2 Population status of study area

The total population of this VDC is 7067 in 2065 B.S. 3514 or 49.74 percent are male and 3553 or 50.26 percent are female. The total number of household is 1116 and the size of households is 6.3. The table given below shows the ward wise and sex wise distribution of population of the study area.

Table No 5.1**Ward-wise and Sex-wise Distribution of Population**

Ward No.	No. of Households	Population				Total	
		Male		Female			
		No.	%	No.	%	population	%
1.	171	551	7.80	526	7.44	1077	15.46
2.	158	562	7.95	546	7.73	1108	15.90
3.	164	514	7.27	499	7.06	1013	14.54
4.	160	488	6.91	493	6.98	981	14.08
5.	79	222	3.14	235	3.33	457	6.56
6.	140	422	5.97	413	5.84	835	11.99
7.	77	231	3.27	337	4.77	568	6.71
8.	73	220	3.11	226	3.18	446	4.40
9.	94	304	4.30	278	3.95	582	8.35
Total	1116	3514	49.72	3553	50.28	7067	100

Source: Tupche VDC Record 2065

Table 5.1 shows the average household size in this VDC is 6.33. The population distribution according to the ascending ward order respectively is 15.46%,15.90%, 14.54%, 14.08%, 6.58%, 11.99%, 6.71%, 4.40%, and 8.35% .Comparatively, the number of people is grater in ward no. 2 and lower in ward no. 8.

5.1.3 Age and Sex-wise Distribution of Population

The population of the study area belongs to different age groups. The total population is sub-divided as economically active and dependent population. It is regarded that the population ranges from 15 to 60 years are known as economically active and other remaining (below than 15 years above than 60 years) are known as inactive or dependent population. The table which is given below tries to show the distribution of population according to sex and age which helps us to identify economic condition of respondents.

Table 5.2

Age and Sex-wise Distribution of Population

S.N	Age Group	Population		Total	
		Male	Female	Total	Percentage
1	Below than 5	449	442	891	12.6
2	5-15 years	898	986	884	26.6
3	16-60 years	1976	1936	3912	55.36
4	Above 60 years	191	189	380	5.38
Total		3514	3553	7067	100

Source: Tupche VDC Office Record 2065

The table 5.2 shows that out of the total population, 12.6 percent belongs to group 0-5 years, 26.6 percent belongs to group 5-15 years, 55.36 percent belongs to group 15-60 years and 5.38 percent of total population belong to group 60 above. 55.36 percent of total population are economically active and 44.58 percent of total population are inactive population. Such high-depended population (44.58 percent) is one of the most responsible factors for the cause of low living standard in study area, Tupche.

5.1.4 Occupational Status of the Sample Households

Many rural people are dominated by the problem of poverty. As the socio-economic condition of the rural area is poor, people, living here, are facing different sorts of problems like poverty, lack of education, employment, lack of proper market for their goods and so on. They use the traditional pattern of cultivation that results low productivity of their occupation. Subsistence farming system is adopted in this village. Most of the respondents have earned their income through the agricultural sector and labour work.

Most of the households depend on agricultural sector. Therefore, the agricultural sector provides the major sources of employment. The given table shows the total population and households engaged in agricultural and non agricultural sector.

Table-5.3**Occupational Status of Sample Households**

S.N.	Major occupation	Households in frequency	%
1	Agricultural		
a.	Agriculture	70	82.3
b.	Livestock	60	70.6
c.	Poultry	67	78.8
d.	Others	5	5.9
2	Non-agricultural		
a.	Business	15	17.6
b.	Industry	10	11.8
c.	Labour works	5	5.9

Source: Field Survey 2010.

The table 5.3 shows the occupational status of the sample households. The information is divided into two broad topics i.e. agricultural and non-agricultural. In agricultural occupation, agriculture, livestock, and poultry and in non-agricultural sectors, business, industry and labour works are shown. About 82% of the sampled household have agriculture as the main occupation. Similarly, about 71%, 79% in frequency have livestock rearing and poultry farming as the main occupation. In terms of non-agricultural sector, 17.6% in business, 11.8 % in industry and 5.9 % are engaged in labour works.

5.1.5 Food Sufficiency and credit receiving pattern

About 40 percent respondents are unable to meet food requirement from their own land. They work others' land to meet household demand. Those respondents who have insufficient food throughout the year engaged in other activities such as wage labour, agricultural labour like fire-wood selling etc.

Table- 5.4**Food Sufficiency and credit receiving pattern of the Sample Households**

S.N	Duration	Households		Total
		Households receiving Credits	Households No Credits	
1	Insufficient through out the year	4 (50%)	4 (50%)	8
2	Sufficient up to 4 month	20 (95.2%)	1 (4.8%)	21
3	Sufficient 4-8 month	15 (100%)	-	15
5	Sufficient 8-12 month	19(100%)	-	19
6	Sufficient surplus food	27(100%)	-	27

Source: Field Survey, 2010

Out of total sample households, 85 households receive credit from different sources for various purposes. 8 households out of sample households have insufficient food throughout the year and among the households insufficient through out the year, 50% household receive credit. Similarly, there are 21 households in which there is food sufficient up to 4 month out of which 95.2% receive credit and only 4.8% do not receive credit. There are 15, 19 and 27 households in which food sufficiency is sufficient 4-8month, sufficient 8-12 month and sufficient surplus food respectively. Food sufficient from 4 month to sufficient surplus food has 100 % credit receiving pattern.

1.6 Educational Status and Credit receiving Pattern of sample Households

The educational status of study area is in satisfactory condition. The table mentioned below shows the educational status of sampled population in terms of credit receiving pattern.

Table 5.5

Educational Status and Credit Receiving Pattern of Sample Households

S.N.	Level of Education	Population		Total
		Credit	No Credit	
1	Illiterate	11(73.3%)	4(26.6%)	15
2	Literate	42(97%)	1(2.3%)	43
3	Educated	32(100%)	-	32

Source: Field Survey, 2010

The table 5.5 shows the educational status and the credit receiving pattern of the sample households. People who cannot read and write Nepali language are known as illiterate, who can read and write (read up to ten classes) are known as literate and who pass SLC and above than it are known as educated. Out of 90 sampled households, 15 household head are illiterate and among them 73.3% receive credit and 26.6% did not receive. Credit receiving pattern is directly related to the educational status of the sample households. 97 percent receive credit and 2.3% did not receive credit from literate group. Similarly, out of 32 educated, 100% receive credit. The educational status among sample population varies according to the ethnic communities and illiteracy rate is mainly centred in lower caste people like Damai, Mizar and Kami. Credit receiving exercises is very low in this group in comparison to other groups.

5.1.7 Family Size and Nature of Credit of the Sample Households

The average households' size in this VDC is 6.3. The family size and the nature of credit of the sample household are given in the table below.

Table 5.6**Family Size and nature of Credit**

S.N.	Family size	Credit	No credit	Total Households
1	1-2	5 (83.3%)	1(16.7%)	6
2	3-4	17(89.5%)	2(10.5%)	19
3	5-6	26(92.9%)	2(7.1%)	28
4	7-8	25(100%)		25
5	9-10	10(100%)		10
6	11- above	2(100%)		2
Total		85	5	90

Source: Field Survey, 2010

The table 5.6 shows the family size and nature of credit. The 6 households has 1-2 family size. Similarly, 19, 28, 25, 10 and 2 households have 3-4, 5-6, 7-8, 9-10 and 11+ family sizes respectively. Out of 6 households in 1-2 family size, 83.3% receive credit and 16.7% do not receive credit. Similarly, out of 19 households, 89.5% receive credit where as 10.5 do not receive. 92.9% receive and 7.1% do not receive credit in 5-6 family size group. The family size 7-8, 9-10 and 11+ family sizes receive 100% credit. The table also shows that there are two households which have 11 or more members. The nature of credit in terms of family size is different.

5.1.8 Land Distribution and Credit Receiving Pattern of Sample Households

In the study area, large number of people has agriculture as the main occupation. But most of them do not have sufficient land for the cultivation. There is high inequality for the distribution of cultivable land. The following table shows a clear picture of land holding size and credit receiving pattern among the sample households.

Table 5.7

Land Distribution and Credit receiving pattern

S.N.	Landholding size (Ropani)	Households		
		Credit	No Credit	Total
1.	Landless	3 (60%)	2(40%)	5
2.	0-5 ropani	12(100%)	-	12
3.	5-10 ropani	13(100%)	-	13
4.	10-15 ropani	30 (100%)	-	30
5.	15-20 ropani	18 (94.7%)	1(5.3%)	19
6.	Above 20 ropani	9(81.8%)	2(18.2)	11
Total		85	5	90

Source: Field Survey, 2010

The table 5.7 shows the distribution of the cultivable land and credit receiving pattern among the 90 households. There are 5 landless households out of which 60% receive credit and 40 % do not receive. There are 12 and 13 households in 0-5 ropani and 5-10 ropani land in which 100 % receive credit. Similarly, 94.7 % receive credit and 5.3 % do not receive credit in 15-20 ropani land holding size. About 82% receive and 18% do not receive credit from above 20 ropani land holding group. The credit receiving pattern is more in those families which has more land holding size. The cultivable land can be categorized as Khet (Khola Khet and Tari Khet) and Bari (Tar Bari and Pakha Bari). The irrigation facility is available in few percentage of cultivable land, i.e. in Kholakhet and there is lack of irrigation in other cultivable land, i.e. in Tarikhet and Bari. Due to the lack of irrigation and modern technology, the agricultural production of land cannot meet sufficiently for the total population in the study area. Most

common crops cultivated in this study area are paddy, Maize, wheat, millet Oil seeds and vegetable etc.

5.1.9 Livestock Owned and the Purpose of Credit

Animal husbandry is also another source of income of the respondents. They use to raise cattle for milk, meat, and manure. Livestock is an integral component of agriculture. For the rural people, livestock is an essential productive asset and it used as a means of securing other asset, such as labour. It enhances sustainability through an increase in reproductive asset at the cost of current livelihood opportunities through reduction in productive asset.

Livestock rearing contributes as a major input to the GDP of Nepal. It is an alternative income source of rural people from which small landholders and even landless households may be benefited but holding of livestock's varies with the holding of land and other reasons. The livestock's owned by the respondent are as follows:

Table 5.8

Livestock Owned and the purpose of Credit of the Respondents

S.N	Types of Livestock	Credits In frequency	No. of Livestock	Average Livestock
1	Buffalo	20	32	1.6
2	Cow/Ox	21	28	1.3
3	Goat	65	240	3.7
4	Pig	13	28	2.1
5	Poultry	81	350500	4327
6	Others	4	15	3.7
7	No animal	3	-	-
Total				

Source: Field Survey 2010.

Out of total sample households, 85 households use credit and among them, only 40 households receive credit for livestock. Out of 40 households, 20 households use credit for buffalo, 21 households use credit for cows/ox, 65 households receive for goat rising and 81

households use loan for poultry farming. In the study area, generally all kinds of livestock are raised by the sample respondents. The number of buffaloes, cows, goats, pigs, Poultry is 32, 28, 240, 28, 350500 and 15 respectively. The average number of livestock per household is buffalos 1.6, cow/ox 1.3, goat 3.7, Pig 2.1, Poultry 4327 and others 3.7 respectively. The table shows that there is higher number of poultry as people started doing this professionally. Poultry Farming can fulfil the meat requirement, egg and also able to make cash income. Therefore most of the people are attracted doing this job. Then, another higher number of cattle are goats, because goats are easier domestic animal. It is not necessary to feed them dana and choker. Only tree forage and fodder and other green grass are sufficient for them. Goats are raised for their meat and sacrificing purpose in several occasions. Pigs are also important cattle reared in the study area. Cows and buffalo are especially reared for milk purpose for the family than selling. Very few People sell milk to make cash income in their local market.

5.2 Local Sources of Credit in this Study Area

Non-institutional credit agencies are known as unorganized source of credit. It is very necessary to highlight the role played by non-institutional credit agencies in agricultural financing. Those types of non-institutional agencies such as money-lenders, landlords, agricultural trader's friends and relatives and so on provided the financial needs for the relation farmers. In this area, Friends and money lenders are the main component of traditional sources. Village money-lenders are persons who finance within the village and engaged in some other occupation while a professional money-lender is the person who lend the money to the farmers. Most of the small farmers are fully affected by this sector. The private credit system lending process is the most popular credit system from that of the early period in Nepal because of disbursement system of private sector may be either in cash or in goods with or without securities. They usually give loan for short period. For long period loan they demand securities in the form of fixed assets like gold, silver and land. The moneylenders can easily recollect their loan because they are the powerful person of the village. The money lenders charged high interest rate. It ranges between 10 to 60 percent. The main causes of high rate of interest charged by village moneylenders are because of the shortage of money and lack of institutional credit.

Commercial Bank and other financial institutions that established formally are included as a modern source of agricultural credit. In the study area, Sajha programme, implemented to facilitate credit, Jana Jagrit Youth Saving Fund, Hamro Sahakari etc. provided financial services to the needy farmers as the modern sources.

Table 5.9

Local sources of credit in the study area

S.N.	Institutional/Modern Sources	Households In frequency	Non-institutional/ Traditional Source	Households In frequency
1.	Small Farmer Development Programme (SFDP)	40	Friends	13
2.	Jana Jagrit Youth Saving Fund (JJYSF)	25	Land-Lords	7
3	Hamro Sahakari	70	Money Lenders	4
4	Others (Banspani Ban samiti/Aama Samuha etc.)	27	Others	5

Source: Field Survey, 2010

The table 5.9 shows the active local financial institutions and non-institutional sources that operate at local level especially in Tupche and its neighbouring VDCs. 40 households receive loan from Small Farmer Development Programme which plays very vital role in rural institutional financing. Similarly 25, 70 and 27 receive loan from Jana Jagrit youth Saving fund, Hamro Sahakari and others respectively. In terms of non-institutional sources, Friends, Landlords, Money Lender and others provide loan for 13, 7, 4 and 5 families respectively. Similarly, Small Farmers Development Programme initiated inseparable programme of ADB

contributes mostly in this study area as founder institutional creditor. Hamro Sahakari is one major financial institution that is acting properly.

5.3 Importance of Agriculture Financing in Study Area

Agricultural development is one of the important sectors of the total economy that influences the overall economic development of this area. But the problem here is how to change that traditional pattern as cultivation of the farmers. The low income is the cause of poor productivity due to lack of sound investment policies in land and cultivation practices. Since farmers own funds are not sufficient for the purpose, credit becomes indispensable. Farmers must spend additional money on improved seeds, fertilizers and agricultural equipment to increase agricultural production. The role of agricultural development over a long time in the past, private sector or the private credit agencies have played the dominant role, while the institutional arrangement for the supply of credit did not exist. There should be some media on the village level to channalize credit to farmers. In this background, economically established cooperative societies should be the best institutions to private agricultural credit at the primary level. All the co-operative organizations have not been running successfully. The government should help to run them properly.

Though the Nepalese agriculture is the backbone of economy, peasants are mostly poor and illiterate. They have no sufficient credit facilities due to their small scale business to improve farming. Monsoon still plays a vital role in determining prosperity of agriculture. The small size of people with abundance of land holding, low level of income of the subsistence sector, un-certain of returns in terrace farming in the hilly regions and indebtedness among farmers have complicated the problems of agricultural sector in this area as to Nepal.

5.4 Loan Procedure System of the Financial Institutions

The loan Procedure system of local financial institutions may varies on the basis of objectives and nature of financial organization. The loan Procedure system of local financial institutions in this study area is mentioned as:

5.4.1 Small Farmer Development Programme (SFDP)

Incidence of poverty is higher in rural area as compared to the urban and semi-urban area of Nepal. Therefore, reduction of poverty is the main challenge for the development of Nepal, and hence it has been the main focussed program in the past as well as present.

To conquer the problem of poverty, the Small Farmers Development Program (SFDP) was initiated in 1975. It was, the outcome of the FAO/UNDP joint regional project named "Asian Survey of Agrarian Reform and Rural Development" (ASARRD), which recognized the fact that special efforts were needed to support the poor and disadvantaged groups. As a pilot project in Nepal, it was first tested at Mahendranagar in Dhanusha District (Terai/plain region) in 2032 Bhadra (August 1975) and at Tupche in Nuwakot (Hill region) Districts in 2032 Falgun (February 1976). The Agricultural Development Bank of Nepal (ADB/N) was entrusted with the responsibility of executing the project.

In the first program, that has been adopted the principle of micro-financing since its inception and thus is the first institution or the pioneer of micro-financing in Nepal. Because;

-) The program comprises of various essential socio-economic development programs together and is the first target oriented program for the overall development of small farmers.
-) Target group is the rural small farmers that are identified and categorized on the basis of income and expenditure i.e. annual income up to Rs. 2500.00 (at 1987/88 prices) per capita or landholding less than 0.5 hectare.
-) Program implementation on the basis of group approach.

-) Enhanced knowledge and skill of small farmers by organizing different training/workshop.
-) Implements saving and credit program together.
-) Group liability and group guarantee.
-) Loan on the basis of capacity and capability of the small farmers.
-) More priority for women groups is given.
-) Implementation of essential social and Community development program with the involvement of small farmers and other potential agencies.
-) Non-small farmers are also benefited from social and community development program (such as drinking water, community irrigation, repair and maintenance of village road and construction of local village to village and link road).
-) Empowerment and leadership development in small farmers.
-) Service package to women small farmers by the women SFDP (where group organizer is women and only women small farmer is eligible).
-) Holistic approach (implementation of economic, social and community development activities together).
-) Participatory (involvement of small farmers in planning, programming, project identification, appraisal, project implementation, supervision, follow-up, monitoring and evaluation).

Agricultural Development Bank, through the SFDP provides the following categorised loan structure.

- Short term production loan
- Short marketing and storage loan

- Medium term loan
- Long term loan

Table 5.10

Purpose Wise and Periods Wise Distribution of Loans

S.N.	Category of loans	Duration	Purpose	Interest rate (%)
1.	Short term production loan	up to 18 months	For the seasonal requirement of raising crops, livestock, diary poultry and other farm inputs that is seed, fertilizers, insecticides, fodder and cattle fee fish and farm equipment.	10-16
2.	Short term marketing and storage	up to 12 months	For the marketing of agricultural products and for transportation and storage facilities.	15
3.	Medium term loan	up to 7 years	For the creation of facilities such as tube well, irrigation pump sets, tractors, power tiller draught animals, diary, poultry, machinery and other agricultural equipment.	12-15
4.	Long term loan	(7 to 20) years	For the improvement of land, constructions of agricultural buildings storages and warehouses facilities, installation of rice mill, agro processing units, tea plantation and horticulture orchard and processing of horticultural products.	12-16

Source: ADB/N Central Office, 2008

The loan of SFDP has designed the certain criteria to provide the loan for the applicant, as follows:

1. The loan applicant must have a Nepalese citizenship of legal age.
2. If the loan applicant is a co-operative body, it must be registered to the appropriate authorised government institutions.

3. The applicants must have the required knowledge, skill and experience for the operation of project for which he is borrowing loans.
4. The applicants must have repaid the previous loan at due date and if he want to be a new applicants for loan, he must be intended to repay the loan at identified date.
5. The applicant must be capable of meeting the counterpart contribution to the project cost as required under policies and procedure of program
6. According to the lending rules of SFDP, the borrowers have to finance some percentage from their own source to that scheme. The minimum rate for the borrower's contribution is 10 percent to 15 percent or the total capital requirement for the scheme for medium and long term loan respectively. But such rule is not applicable to the village committees and cooperatives and also to the borrowers who are suffered by the natural calamities.

On the basis of above factors, Small Farmer Development program provides the loan for the applicants.

SFDP provides the loan in two ways:

Loan Directly to Individual Farmers

Farmers could not obtain their capital requirements from their own savings, so each farmer need loan. They need loans to finance their needs such as:

- a. to buy production supplies;
- b. to pay rents, wages and other expenses for production;
- c. to provide subsistence for the family;
- d. to purchase tools and small equipments;
- e. to diversify farming practices;
- f. to improve, development or add farm.

Individual farmers, willing to borrow loan, must be well-informed about his lender's policies, procedure and other lending conditions in order to act accordingly. The borrower should fill

up the precise loan application form supplied by the bank. The application form should be accompanied with the supporting documents such as - certificates of land ownership, receipt of land revenue payment and the receipt of rent payment, if a tenant.

Loan application forms are supposed to be prepared by the borrower himself. When the agent of the lender or any other person helps the borrower to complete the form, the application should expose the farmers' own will only. The draft should be fully explained or re-read to the borrower before he is asked to sign in concurrence to the contents. It is more advisable that the borrower compiles all his seasonal or annual credits needs in one loan application.

With the information, the investigator analyses and determines the technical feasibility and economic viability of the project. The Bank advances loans preferably in kind only to the borrowers whose projects appear technically feasible and economically viable in order to assure that the loans are properly utilized. For example, seeds and fertilizers are availed to the loan less by placing orders to local supplying agencies such as the Agricultural Input Corporation (AIC) depots and/or Cooperative societies. Similarly, loans for tractors, tube wells, pumps, engines and other machineries are disbursed by placing supply orders to the concerned agencies and payments are directly made to the suppliers.

Providing loans to farmers through cooperatives, in case of short-term credit, the junior technical assistant (JTA) and manager of the cooperative societies helps the farmer in the preparations of their production plan and completion of the prescribed loan application form, which the member presents to the society to the approval. The cooperative manager reviews the loan application and production plans, conducts field investigation, if necessary, and determines the net credit need of the farmers. The cooperative manager makes a summary of credit requirements of all the member farmers and forwards it to the nearest ADB/N office for approval, with due recommendations from the board of cooperatives. The ADB/N, after receiving loan application, makes field investigation, if necessary, on random basis or releases the appropriate amount of loans to cooperatives, which, in turn, re-loans the same to the member farmers.

5.4.2 Jana Jagrit Youth saving Fund

Loan providing system of Jana Jagrit youth saving fund is especially based on the decision of managing committee. It provides the loan for the member of this fund and others recommended by its own member. 18 percent interest rate is charged to the debtor out of members and 15 percent for its own member. The sources of the fund are regular saving of members, levies, late charge, etc.

5.5 Purpose of Credit

The credit facilities are accepted for the various purposes. They receive the loan for agricultural and non-agricultural sectors especially. The purpose of loan of the farmers of this study area is mentioned in this table.

Table 5.11

Purpose wise Credit Receiving Pattern of Sample Respondents

S.N.	Description	Households	Percent (%)	
1	For Agricultural sector			
	A	Farm improvement and Buying equipments	20	22.22
	B	Purchasing improved seeds/Pesticide	13	14.44
	C	Animal Husbandry/poultry	40	44.44
	D	Horticulture	9	10
2	For Non Agricultural sector			
	A	Marriage	1	1.1
	B	Treatment and others	2	2.22
3	No credit	5	5.5	

Total	90	100
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Source: Field Survey 2010

The above table shows that the most of respondents about 82 percent of total sample respondent receive the loan facilities for the agricultural purpose out of which 22.22 percent of total responds use the loan for the improvement and purchase of land and 44.44 percent for husbandry/poultry, 14.44 percent for purchasing improved seeds and pesticide. The loan from informal sources is not included in this analysis because of the lack of accurate data but most of the rural people used to receive loans from these traditional sources .The trend of receiving loan from traditional source is dramatically reduced. The available sources of finance in rural area of Nepal are not sufficient for the increased trend of loan receiving pattern in rural areas. So, the government of Nepal or other concerned and authorised institution should pay their attention for the establishment of rural financing institutions to remove the insufficiency of finance.

5.6 Credit Receiving Pattern of Respondent on the Basis of Social Group

Credit receiving pattern of the respondent varies on the basis of social groups. The respondents of socially advantaged groups include Brahmin and Chhetry families and socially disadvantage group that include Dalit, Magar, Tamang, Bhujel etc. Comparatively the respondents of socially advantage group receive the large scale from formal financial institutions but the respondent of socially disadvantaged group receive the loan from non-institutional sources and they are cheated by high charged of interest rate. The credit receiving pattern of respondent in frequency is mentioned bellow.

Table 5.12**Credit Receiving Pattern of Respondent on the Basis of Social Group**

S.N.	Description	Households in frequency		Total Households	Percent %
		Advantaged	Disadvantaged		
1	Institutional sources				
A	Small Farmer Development Programme	30	10	40	44.4
B	Jana jagrit Youth saving Fund	25	-	25	27.8
C	Hamro Sahakari	63	7	70	77.8
D	(Ban samity/AamaSamuha	12	15	27	30
2	Non-institutional sources				
A	Friends	7	6	13	14.4
B	Money-lenders	2	5	7	7.8
C	Others	1	3	4	4.4
3	No receiving Credit	4	1	5	5.6

Source: Field Survey 2010

On the basis of this table 5.12, about 44.4 percent households out of 90 receive the loan from Small Farmer Development programme (SFDP) out of which 30 households are socially advantaged group and only 10 households is socially disadvantaged and 27.8 percent, 77.8 percent, and 30 percent households receives loan from Jana jagrit Youth saving Fund, Hamro Sahakari and others (Ban Samity /Aama Samuha etc.). Similarly, 14.4 percent, 7.8 percent, and 4.4 percent households receive loan from friends, money-lender and other non-institutional sources respectively and 5 households (5.6 percent) out of total sample households are free from credit.

5.7 Amount of Credit on the Basis of Land size

Most of the respondent of study area (About 95 percent of total sample households) uses the credit from different institutional and non-institutional resources and they use these loans for various purposes. The amount of credit varies on the basis of their social status. The higher land holding sized family use comparatively high amount of credit than the lower land holding sized family. The table shows the amount of credit of sample respondents on the basis of land size.

Table 5.13
Amount of Credit on the Basis of Land size

S.N.	Amount of Credit	Land size						Total Households
		Land Less	0-5 ropani	5-10 ropani	10-15 ropani	15-20 ropani	Above 20 ropani	
1	No Credit	2(40%)	-	-	-	1(20%)	2(40%)	5
2	Up to 15,000	2(8%)	4(16%)	8(32%)	10(40%)	-	1(4%)	25
3	15,000-30,000	1(4.8%)	4(19.1)	2(9.5%)	12(57.1%)	2(9.5%)	-	21
4	30,000-50,000	-	3(13.1%)	2(8.7%)	7(30.4%)	6(26.1%)	5(21.7%)	23
5	50,000-1,00,000	-	1(9.1%)	-	3(27.3%)	6(54.5%)	1(9.1%)	11
6	Above 1,00,000	-	-	-	-	3(60%)	2(40%)	5
Total		5	12	12	32	18	11	90

Source: Field Survey 2010

The table 5.13 shows the amount of credit on the basis of land size. 5 households out of 90 do not use credit in the study area. 25 households out of total sample households use the small size

of credit that is less than 15000. Among them, 8% from landless group, 16% from 0-5 ropani, 32 % from 5-10 ropani, 40 % from 10-15 ropani receive credit Similarly, 5 households of total sample households use large amount of credit which is above 1, 00,000. Among them, 60 % from 15-20 ropani and 40% from 20 + ropani group receive credit. While talking about credit in terms of land holding size, families having larger amount of land are getting more credit in comparison to the families having less land holding size.

From this study, the conclusion can be summarised that the access of financial facilities is reached to the socially advanced group especially those who have more land holding size.

5.8 Impact of Agricultural Credit in Study Area.

As many people are based on agricultural sector, agricultural development is one of the important sectors of the total economy that influences the overall economic development of a country. Moreover, agricultural contribution in Nepal directly affects the overall rate of growth and development.

Most of the people of this study area are engaged in agricultural and sub- agricultural sectors. The low level income is the cause of poor productivity due to lack of sound investment policies in land and cultivation practices. Farmers must spend additional money on improved seed; fertilizers and agricultural equipment to increase agricultural production. For this, credit can play multi-functions for raising the production. The benefits of this study are defined as all those perceived by the credit users. The study has demonstrated that there were significant changes taking place in average income of local people. The socio economic conditions of the respondents are difficult to measure in numerical term but we can compare the economic status that is changed due to the uses of agricultural credit. People have been using credits for years, as this research designed, it is focused up on the average productivity of sampled households in terms of credit receiving and non credit. The table given below shows the average productivity of the land of the sampled households.

Table 5.14

Average productivity of land of the sample households

Land size Ropani	Credit used in Agriculture				No credit				Credit used in Non-agriculture			
	Hds	Land (Ropani)	Prod (Muri)	Ave prod (M/ropani)	Hds	Land (ropani)	Prod (muri)	Ave. prod (m/ropani)	Hds	Land ropani)	Prod(muri)	Ave. Produ(m ropani)
Land Less	2	-	-	-	2	-	-	-	1	-	-	-
0-5	12	36	192	5.33	-	-	-	-	-	-	-	-
5-10	13	85	432	5.08	-	-	-	-	-	-	-	-
10-15	30	398	2309	5.8	-	-	-	-	-	-	-	-
15-20	17	324	1717	5.3	1	18	74	4.1	1	16	63	3.94
20 +	8	242	1306	5.4	2	54	216	4	1	28	106	3.79
	82	1085	5956		5	72	290		3	44	169	

Source: Field Survey 2010

The table 5.14 shows the information about the average productivity of land of sample households. As already mentioned, according to the structured questionnaire the information of the sample respondents is taken. The first vertical column shows the land size in ropani and horizontal column shows the average income of the households in terms of three broad categories: credit used for agriculture, no credit and credit used on non- agriculture. The table shows that out of 90 sampled households, 82 households use credit in agriculture, 5

households do not receive credit and 3 households use the credit in non-agricultural sector. In 0-5 ropani land holding size group, 12 households receive credit for agriculture from which there is average productivity 5.33 muri per ropani. Similarly, the family having 5-10 ropani, 10-15 ropani, 15-20 have 5.08, 5.8 and 5.3 muri production per ropani. And above 20 ropani land size have 5.4 muri per ropani. The average land productivity differs with in the same land holding size of the households to those who use credit in agriculture and who do not use. 5 households out of 90 do not use credit. The family having 15-20 ropani and 20 + ropani have 4.1 and 4.0 muri average productivity of land. The same categories of land of the households who use credit have 5.3 and 5.4 muri average productivity. Here lies the difference between the family who use credit or not. Similarly, the households who use credit in non-agricultural sector like marriage and ritual rites have 3.94 and 3.79 muri per ropani.

Table 5.15

Income from Animal husbandry of sample households

S. N.	Animal Types	Credit			Non credit		
		Household in frequency	animals	Average income	Households in frequency	animals	Average income
1	Cow	21	92	12,600	2	5	10,510
2	Buffalo	20	32	45,550	2	2	40,250
3	Goat	65	240	16,200	3	10	9,215
4	Pig	13	28	17,600	-	-	-
5	Poultry	81	350,500	80,500	1	10	2,000
6	Others	4	15	555	-	-	-

7	No Animal	3	-	-	-	-	-
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Source: Field Survey 2010

The given table 5.15 gives the information of sub- agricultural sector animal husbandry and average family income of the sample respondents. The respondents generally have Buffalo, cow, goat, pig and poultry as the main types of animal rearing. The table shows the average income of the sampled households from animal husbandry in terms of credit and non credit. The average income of the households from cow, buffalo, goat, pig, poultry and others is 12600, 45550, 16200, 17600, 80500 and 555 respectively. The table also shows the average income of the non-credited sampled households from animal husbandry. The average income of the non-credited sampled households from cow, buffalo, goat and poultry is 10,510, 40,250, 9,215 and 2,000 respectively. The trend of animal rearing is quite typical in the study area. The trend of taking institutional credit in animal husbandry is increasing and those households have more average income than to the households who do traditional way of animal rearing. The study also shows the trend of professional way of poultry farming as many people are interested in it. There are some households who kept animals as subsistence farming and they are not professional. The level of income is different according to the pattern of animal husbandry in the study area.

There is notable increment in the income level of the sample respondents after investing loan in animal husbandry. The professional way of Poultry Farming has begun and most of the respondents have started poultry farming.

In the study area, financing system especially was led by Small Farmer Development Program (SFDP) created various types of socio-economic impacts to the credit user in society. One of the most significant roles of agricultural financing is to generate income opportunities. In this study area, 80 percent of total sample HDs improved their income level from the proper utilization of loans. People of the study area use the loan for various purposes. They use it in animal husbandry, poultry farming, land improvement, establishing agro-based industry etc. that provide the employment opportunities for un-employed or semi-employed population.

Rural financing system also created the negative impacts. Some of the respondents misuse the loan. They use their loan in un-productive sector such as marriage, paying their previous loan, drinking etc. That's why; they are being unable to repay the loan. In this study area, 3 HDs, out of 85, misused the loan.

CHAPTER VI

MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

6.1 Major findings of the study

- The total population of this VDC is 7067 in 2065. 3514 or 49.74 % are male and 3553 or 50.26 % are female. The total number of household is 1116 and the size of households is 6.3.
- The population distribution according to the ascending ward order respectively is 15.46%, 15.90%, 14.54%, 14.08%, 6.58%, 11.99%, 6.71%, 4.40%, and 8.35% .
- Out of the total population, 12.6 % belongs to group 0-5 years, 26.6 % belongs to group 5-15 years, 55.36 % belongs to group 15-60 years and 5.38 % of total population belong to group 60+. 55.36 % of total population are economically active and 44.58 % of total population are inactive population.
- About 82% of the sampled household have agriculture as the main occupation, 71%, 79% in frequency have livestock rearing and poultry farming as the main occupation and in terms of non-agricultural sector, 17.6% in business, 11.8 % in industry and 5.9 % are engaged in labour works.
- 8 households out of sample households have insufficient food throughout the year and among them, 50% receive credit. Out of 21 households having food sufficient up to 4 month, 95.2% receive credit and 4.8% do not receive credit. 15, 19 and 27 households in which food sufficiency is sufficient 4-8month, sufficient 8-12 month and sufficient surplus food respectively have 100 % credit receiving pattern.
- Out of sampled 90 households, 15 household head are illiterate and among them 73.3% receive credit and 26.6% do not receive. 97 % receive credit and 2.3% do not receive credit from literate group. Similarly, out of 32 educated, 100% receive credit.
- Out of 6 households in 1-2 family size, 83.3% receive credit and 16.7% do not receive. Out of 19 households in 3-4 family size, 89.5% receive credit where as 10.5% do not receive. Out of 28 households in 5-6 family size, 92.9% receive and 7.1% do not receive credit. The family size 7-8, 9-10 and 11+ family sizes receive 100% credit.

- 60% receive and 40 % do not receive credit from 5 landless households. 100 % households receive credit from 12 and 13 households in 0-5 ropani and 5-10 ropani land. Similarly, 94.7 % receive and 5.3 % do not receive credit from 15-20 ropani land holding size. About 82% receive and 18% do not receive credit from above 20 ropani land holding group.

- 40 households out of 90 receive credit for livestock. Out of 40 households, 20 households use credit for buffalo, 21 households use credit for cows/ox, 65 households receive for goat rising and 81 households use loan for poultry farming.

- 40 households receive loan from SFDP. 25, 70 and 27 households receive loan from Jana Jagrit youth Saving fund, Hamro Sahakari and others respectively. In terms of non-institutional sources, Friends, Landlords, Money Lender and others provide loan for 13, 7, 4 and 5 families respectively.

- About 82 % of total sample respondent receive the credit for the agricultural purpose out of which 22.2 % of total responds use the loan for the improvement and purchase of land and 44.4 % for husbandry/poultry, 14.4 % for purchasing improved seeds and pesticide.

-About 44.4 % households out of 90 receive the loan from SFDP in which 30 households are socially advantaged and 10 households are socially disadvantaged and 27.8 %, 77.8 %, and 30 % households receives loan from Jana Jagrit Youth saving Fund, Hamro Sahakari and Others (Ban Samity /Aama Samuha etc.). Similarly, 14.4 %, 7.8 %, and 4.4 % households receive loan from friends, money-lender and other non- institutional sources respectively and 5 households (5.6 %) are free from credit.

- 25 households use the small size of credit that is less than 15000. Among them, 8% from landless group, 16% from 0-5 ropani, 32 % from 5-10 ropani, 40 % from 10-15 ropani receive credit. Similarly, 5 households use large amount of credit which is above 1, 00,000. Among them, 60 % from 15-20 ropani and 40% from 20 + ropani group receive credit.

- Out of 90 households, 82 households use credit in agriculture, 5 households do not receive credit and 3 households use the credit in non-agricultural sector. In 0-5 ropani land holding

size group, 12 households receive credit for agriculture from which there is average productivity 5.33 muri per ropani. Similarly, the family having 5-10 ropani, 10-15 ropani, 15-20 have 5.08, 5.8 and 5.3 muri production per ropani respectively. And above 20 ropani land size have 5.4 muri per ropani. The family having 15-20 ropani and 20 + ropani have 4.1 and 4.0 muri average productivity of land. The same categories of land of the households who use credit have 5.3 and 5.4 muri average productivity.

-The average income of the households, who use credit in cow, buffalo, goat, pig, poultry and others, is 12600, 45550, 16200, 17600, 80500 and 555 respectively. The average income of the non-credited sampled households from cow, buffalo, goat and poultry is 10510, 40250, 9215 and 2000 respectively.

6.2 Conclusion of the Study

Agriculture plays a predominant and cartelistic role in the enhancement of economic development. Without developing the agricultural sector, it will be difficult to develop the economic condition of the country. All the socio-economic sectors, even foreign trade, are directly and indirectly dependent upon the agricultural sector.

Agriculture is the largest sector in the Nepalese economy in terms of GDP, employment; foreign exchange earning and raw materials based industries. Large number of people is engaged in this sector and around 36 percent (NRB 2008/09) of the total GDP is contributed by this sector. Moreover, agricultural commodities constitute over 70 percent of the total foreign exchange. All these statistics show that agriculture plays a vital role for the enhancement of national economy. So, the authorized persons, institutions should provide their top most priority to develop the agriculture sector to its full capacity.

The economic condition of those farmers who are directly and indirectly in agriculture sector is too poor. It is because of the low productivity of land. The productivity of the land can be increased by introducing new technology. For this, there should be proper management of credit facilities so that the people engaged on this sector are able to use the tools, technology and improved seeds.

From this study, the conclusion can be summarised that the access of financial facilities is mostly centred to the socially advanced group such as Bhramins and Chhetries and the financing facilities is not able to uplift the living standards of lower caste and socially suppressed sections of society. The section of society is compelled to borrow the loan from money-lenders and Land-lords.

The objectives of this study are to identify the nature and extent of agricultural financing situation in rural area. The findings of this study prove that the present situation of agricultural credit is not sufficient to mobilize full capacity of agricultural potentialities. In such situation, it is necessary to reduce the various types of problems occurring in agricultural financing.

6.3 Recommendations

From this study, it is found that there occur the various types of problems in providing the credit facilities to agro-based rural people. A large number of factors are responsible for boosting up the problem. So, it is necessary to reduce and if possible, alleviate it. In this section, some recommendations and suggestions are put forward:

- Banks and other financial institutions should be established in the rural areas, which would provide credits and loans at low interest rate.
- The financial institution should charge low rate of interest for agricultural sectors and financial institutions must give confidence to the farmers that they need not go to village money lenders for loan at the time of necessity.
- The Bank should provide the loan facilities to horticulture and cash crop production and for other potential rural development.
- The rural farmers should be encouraged by concerned authorities that they are not cheated by financial institutions by which they are interested to work with them.

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