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Farmers' Challenges in Securing Agricultural Credit in Nepal

Yam Lal Bhoosal[1]

Dr. Binod Krishna Shrestha[2]

Dr. Prakash C. Bhattarai[3]

Dr. Kamal Paudel[4]

[1]Joint Secretary, Office of the Prime Minister and Council of Ministers, Government of Nepal

[2]Professor, Kathmandu University, School of Management

[3]Professor, Kathmandu University, School of Education

[4]Undersecretary, Office of the Prime Minister and Council of Ministers, Government of Nepal

Corresponding author:
21mc601_yamlal@kusom.edu.np

Abstract

The agriculture sector is the backbone of a country. However, this sector receives limited loan disbursement from commercial banks. In this context, the present study aims to explore the experiences of farmers utilizing agricultural credit and the challenges they face during the loan acquisition process. Adopting a qualitative approach, the study carried out in-depth interviews with seven farmers of Nepal. The findings reveal that farmers face challenges stemming from limited financial awareness and procedural hurdles. Additional difficulties include struggles with loan acquisition and repayment, family misunderstandings regarding using credit for farming, and obstacles in optimizing loanable funds within the broader context of credit management, project extension, technology transfer, and the creation of value chains through circular linkages. This study offers valuable insights for policymakers and practitioners in designing rational and impactful agricultural credit policies to promote sustainable farming in Nepal by highlighting the key hurdles farmers face in accessing agricultural loans.

Keywords: agricultural credit, financial awareness, repayment struggle, credit management

Introduction

Agricultural credit is pivotal in encouraging agricultural production, uplifting rural livelihoods, and driving economic growth in Nepal, as the agriculture sector is the backbone of the Nepalese economy. Agriculture contributes a significant share of GDP and engages a substantial portion of the population. Recent data indicate that the agriculture sector contributes 25.2% to the GDP (Ministry of Finance [MoF], 2025), while a significant proportion, i.e., 62% of households, depend on it for their livelihoods (National Statistics Office [NSO], 2022). Similarly, smallholders largely dominate Nepalese agriculture, with total holdings, 3.2% live without land, whereas 83.5% have at least 1 hectare of land.

Many small-scale farmers face challenges, such as limited access to essential resources like capital and labor, which hinders their productivity. Providing more accessible access to credit could be a practical solution to this problem. Saving and credit cooperatives can be important in this regard, but they are questioned about their service quality and management on some occasions (e.g., Sapkota et al., 2023; Sapkota et al., 2024; Simkhada & Bhattarai, 2023). Farmers can invest in crucial inputs such as seeds, fertilizers, machinery, and labor by taking credit from the bank, enhancing their productivity and ensuring food security for the nation. Moreover, access to credit from the bank can enable them to adopt modern farming techniques, improve infrastructure, and mitigate risks associated with weather fluctuations and market uncertainties. Further, government initiatives such as the Agricultural Credit Guarantee Scheme (ACGS) and Prime Minister Agriculture Modernization Project (PMAMP) aim to facilitate credit disbursements and adopt modern agricultural practices to promote agribusiness in Nepal.

Furthermore, these initiatives help to address the existing challenges of agricultural credit, like limited collateral, high interest rates, and poor financial literacy status of farmers (Mishra, 2024). The sector-wise disbursement of loans by the commercial banks of Nepal during 2021-2023 is illustrated in Table 1. On average, the agriculture, forestry, and beverage production sectors have utilized around 5.4 per cent of the total loan disbursement during the period.

Table 1 : Sector-wise Disbursement of Loans and Advances by Commercial Banks of Nepal

S. N.	Sector	Per cent of Total Loan (Mid-July)			
		2021	2022	2023	2024
1	Agriculture Forest	6.52	7.18	7.65	7.09
2	Fishery	0.21	0.28	0.31	0.32
3	Mining	0.22	0.2	0.26	0.25
4	Agriculture, Forestry & Beverage Production Related	5.48	5.25	5.51	5.9
5	Non-food Production Related	12.32	11.6	11.86	12.13

S. N.	Sector	Per cent of Total Loan (Mid-July)			
		2021	2022	2023	2024
7	Construction	9.56	3.71	3.88	4.0
8	Power, Gas, and Water	5.45	5.74	6.93	7.99
9	Metal Products, Machineries, Elec. and Installation	1.61	1.68	1.57	1.47
10	Transport, Warehousing, and Communication	2.12	1.99	1.94	1.69
11	Wholesalers and Retailers	20.55	20.75	20.77	19.92
12	Finance, Insurance, and Real Estate	7.74	7.55	7.11	7.03
13	Hotel and Restaurant	4.44	4.21	4.22	4.36
14	Other Services	4.4	4.25	4.13	3.97
15	Consumable Loans	5.52	18.14	17.81	18.41
16	Local Government	0.04	0.03	0.03	0.03
17	Others	13.82	7.45	6.03	5.44
	Total	100	100	100	100

(Nepal Rastra Bank [NRB], 2022/23; 2024)

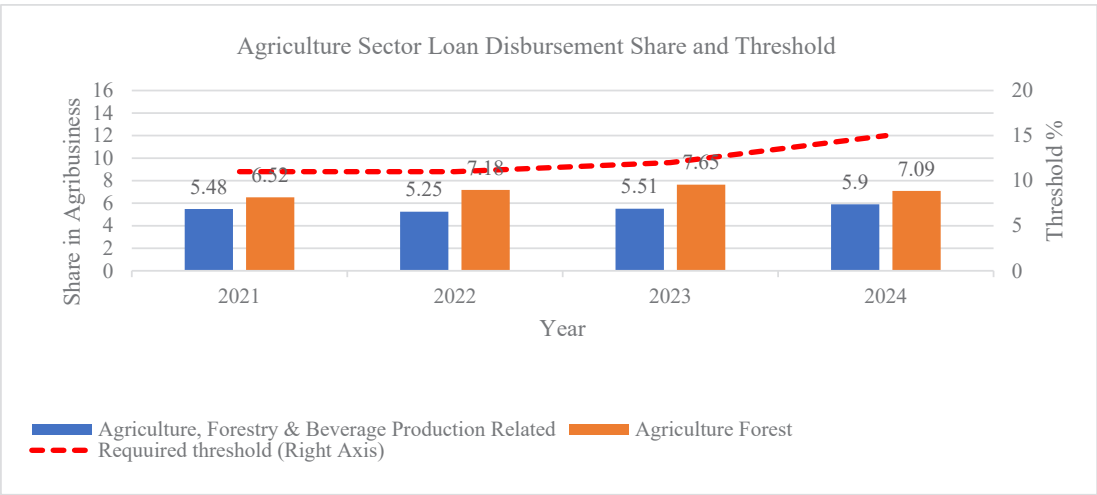
Credit in the agriculture sector can be generated from formal and informal channels (Pandey, 2022). The formal sector comprises institutions such as commercial banks, financial institutions, microfinance institutions, and cooperatives, all of which play significant roles in credit creation in agriculture. These entities provide credit to farmers through loans, overdraft facilities, and other financial products tailored to agricultural needs. On the other hand, the informal sector comprises sources like farmer groups, women groups, and personal lenders. These informal channels often operate within local communities, offering flexible terms and quicker access to credit, especially for smallholder farmers who may face challenges in accessing formal financial services. Formal and informal credit sources contribute to sustaining agricultural activities, supporting farmers in investing in inputs, equipment, and technologies necessary for improving productivity and livelihoods in Nepal's rural areas.

Over the years, Nepal has introduced several policies aimed at enhancing agricultural production, employment opportunities, and productivity for a better livelihood. Initially, the Government of Nepal launched the Agriculture Perspective Plan (APP), which was implemented for 20 years since 1995. It focused on increasing sectoral growth and agricultural productivity. This plan is also expected to increase employment opportunities and reduce poverty. Building upon this, a new program called the Agriculture Development Strategy (ADS) was introduced, which covers the period from 2015 to 2035 (Ministry of Agriculture Development [MoAD], 2015). As part of this strategy, there's a focus on prioritizing increased access to credit for

farmers to provide them with essential support. Recently, the government has boosted the agriculture sector credit through monetary and fiscal policy instruments. The Nepal Rastra Bank (NRB) has instructed all banks and financial institutions to prioritize investments in key sectors such as agriculture, energy, tourism, and small and medium enterprises (SMEs) (NRB, 2019). The Unified Directive released by NRB instructed commercial banks and other financial institutions to allocate a certain level of credit (at least 12% - 15 % of total credit disbursement) in the agriculture sector (NRB, 2023).

The main objective of this directive is to stimulate growth and development in the agriculture sector by ensuring adequate financial support for farmers and related enterprises. By encouraging investment in agriculture, NRB aims to boost agricultural productivity, improve rural livelihoods, and contribute to overall economic prosperity in Nepal. In addition, the Prime Minister Agriculture Modernization Project (PMAMP) is one of Nepal's largest agricultural government projects to develop a modern, commercial, sustainable, and self-reliant agricultural sector.

Nepal Rastra Bank (NRB) has also directed banks and financial institutions to extend credit to the deprived sectors to improve the socio-economic status of marginalized individuals (Pandey, 2022). This initiative targets specific groups such as women, unemployed individuals, youth, farmers, workers, and those returning from foreign employment. The goal of providing credit to these segments is to support their engagement in agriculture and income-generating activities. These efforts are crucial for empowering disadvantaged communities, enhancing their livelihood opportunities, and fostering inclusive economic growth in Nepal. The sector-wise loan and advances data (Table 1) also highlighted the agriculture credit status in Nepal.



(NRB, 2024)

Figure 1 : Sectoral Loan Disbursement Share and Threshold Level in Agriculture and Related Business

Figure 1 depicts that around 5.9 % of total credit has been disbursed for the agriculture, forestry, and beverage production sectors. However, around 7.1 % has been absorbed by the agriculture and forest sector. In aggregate, around 13 % of the total loan and advances share is allocated for agribusiness, which is still below the required threshold as directed by the Nepal Rastra Bank. Despite these policy efforts, many farmers in Nepal still struggle to access credit. Only 11.7% of farm holders receive agricultural credit (NSO, 2022). This indicates that most farmers face financial difficulties. Farmers' access to credit and proper utilization of credit can be ensured by adopting new technology, enhancing productivity, contributing to the value chain, and reducing agro-product importation. Scholars have looked into different aspects of agricultural credit and drawn diverse conclusions. However, there is a noticeable gap in the literature regarding the experiences and other hurdles faced by farmers when they seek credit. Major questions remain unanswered, such as what challenges they face in the loan disbursement process, how easily they obtain the credit, and how fairly they use it. Hence, there is a clear gap between the policies and their outcomes in Nepal's agricultural finance.

This study aims to narrate the stories of farmers who obtained credit from banks and financial institutions. This study further explores the key challenges and existing policy gaps for underutilizing agricultural credit. In addition, this study follows a qualitative approach to answer the research questions: What are the key challenges faced by Nepali farmers while obtaining agricultural credit in Nepal? This paper highlights the difficulties in accessing credit by listening to farmers' voices. It identifies potential areas of reform in the entire agricultural credit system and its business process in Nepal. A deeper understanding of these issues is essential for policymakers and practitioners to enhance credit accessibility for farmers. Despite the existing studies on agricultural credit, the lived experiences of smallholder farmers in Nepal have not been sufficiently explored using a qualitative method. This paper also documents new insights by examining farmers' and officials' experiences in the loan acquisition process for sustainable agriculture farming in Nepal.

Literature Review

Awunyo-Vitor (2018) formulated a comprehensive theoretical and conceptual framework regarding farmers' access to financial services, centering on four key theories: delegated monitoring theory, transaction cost theory, rational choice theory, and information asymmetry theory. These theories are directly or indirectly associated with farmers' narratives regarding credit in the agriculture sector. Diamond (1984) proposed the Delegated Monitoring Theory, which focuses on minimizing the costs related to monitoring activities, a concept crucial for reducing incentive conflicts between borrowers and lenders in financial intermediation, and helps reduce the cost of information asymmetry. This theory explains the role of the bank as a monitor of loans on behalf of depositors. Banks reduce the cost of monitoring many individual loans by pooling resources, ensuring better loan performance. However, there is a clear gap in the context of agricultural credit, especially with the rise of new technologies, changing agricultural practices, and the disinterest of youth in agri-business. This gap often focuses more on the lender’s role, while the borrower’s perspective, particularly that of farmers, is frequently overlooked.

Rindfleisch (2019) examined the past, present, and future of transaction theory by exploring the contributions of three key scholars: Ronald Coase, Oliver Williamson, and Yochai Benkler. While this theory suggests that organizations aim to reduce transaction expenses, it doesn't necessarily address whether small farmers benefit from minimizing these costs when securing loans (Rindfleisch, 2019). Mwonge and Naho (2022) assess the smallholder farmers' perceptions towards agricultural credit in Tanzania using rational choice theory. This theory assumes that individuals decide by rationally weighing costs and benefits to maximize their utility. Farmers, therefore, only seek agricultural credit when they perceive clear benefits compensating for the risks or costs. In practice, this theory may overlook the capacity of small farmers to make informed decisions regarding obtaining agricultural loans.

Information asymmetry theory states that in transactions, one party typically possesses more information than the other, leading to potential market inefficiencies (Awunyo-Vitor, 2018). In agricultural credit, information asymmetry significantly shapes lending practices. As a result, lenders often set many conditions that small farmers must follow, which can seem unfair to them. These four theories present a range of viewpoints on credit issuance; however, they fall short in adequately addressing the concerns and perspectives of small farmers, highlighting a significant gap while integrating into the value chain mechanism. When incorporating these theories into practice, these ideas explicitly identify key challenges faced by the farmers engaged in agri-business in Nepal.

Determinants of Agricultural Credit

Scholars have investigated the various factors impacting access to agricultural credit (Aliero & Ibrahim, 2013; Sebopetji & Blete, 2009). While their studies shed light on certain demographic and capability aspects, they only offer a partial understanding of farmers' perspectives on credit. Common individual-specific factors affecting farmers' credit that scholars identified were caste, education level, household marital status, interactions with extension agents, farming experience, land size, gender, and connections with large landholders (Akudugu, 2012; Akpan et al., 2013; Aliero & Ibrahim, 2013; Dzadze et al., 2012; Sebopetji & Blete, 2009).

Yadav and Sharma (2015) classified these determinants into three categories: individual factors, economic factors, and others. Within individual factors, the determinants are: education, marital status, caste, gender, extension contact, experiences, age, household size, social status, affiliation to a political party, and membership of a farmer's association. Within economic factors, income level, collateral value, rate of interest, transaction cost, total cost of production, land size, incidence of past savings, participation in off-farm activities, value of livestock, health care expenditure, expenses on child education, repayment capacity, and net margins are identified as the key determinants for agriculture credit. Similarly, other factors, including irrigation facilities, access to basic infrastructure facilities, purpose and duration of loan, type of crop, distance from lending institution, and status of land records, also contribute to determining agricultural credit. The factors presented by the scholars above provide insightful determinants of agricultural credit, yet fail to explore the whole narrative of

farmers regarding their credit experiences and the implementation gap of existing agricultural credit policy, as anticipated by the Central Bank's Unified Directive (NRB, 2024, p. 144). The directive highlighted that each commercial bank should disburse at least 12 % of total credit in the agriculture sector by mid-July 2025. This ratio should reach 15% by mid-July 2027. Thus, while these studies are informative, they do not fully capture the comprehensive picture of farmers' perceptions and realities concerning credit accessibility.

Some studies suggest a direct and significant relationship between agricultural credit and output (Bashir et al., 2010; Ekwere & Edem, 2014; Iqbal et al., 2003; Rimal, 2014; Saleem & Jan, 2011; Sriram, 2007). However, other studies argue that the direct impact of agricultural credit on farm output cannot be conclusively determined. Scholars such as Bahsi & Cetin (2020), Hussain (2012), Sjah et al. (2003), and Zuberi (1989) hold this perspective. On the other hand, some scholars conclude that a significant impact on agricultural output comes from indirect credit rather than direct credit and argue that indirect forms of credit have a more noticeable effect on farm output (Ahmad, 2011; Raza & Siddiqui, 2014). Dahal and Thapa (2020) conclude that the commercial bank alone is not significantly affecting Nepal's agriculture sector growth. Thus, they diverge in their conclusions regarding the relationship between agricultural credit and farm output. This ambiguity underscores the complexity of agricultural finance and the diverse challenges faced by farmers in leveraging credit to improve their livelihoods.

Very limited studies in the literature analyze farm productivity and agriculture sector credit (e.g., Agbodji & Johnson, 2021; NRB, 2014). Another study examined the factors influencing the use of formal agricultural credit among smallholder farmers in western Nepal (Mishra, 2021). Similarly, a recent study (Pandey, 2022) aimed to understand the status of agricultural credit and its challenges. The other study by Dahal & Thapa (2020) uses a descriptive and analytical research design to measure the impact of agriculture loans on agricultural GDP. While these studies provide some insights into agricultural credit, they do not fully capture the whole story of farmers regarding the credit utilization in Nepal through a qualitative lens.

Research Gap

Most of the research primarily relies on quantitative tools and techniques. Despite being conducted in various countries, most studies utilize time series data and econometric methods. They mainly examine the connection between agricultural credit and agricultural production and productivity (e.g., Agbodji & Johnson, 2021; Saleem & Jan, 2011). However, they do not use a qualitative approach to explore farmers' narratives regarding agricultural credit.

There is a clear gap in the policy and program in agriculture finance, especially credit programs for farmer and their implementation. The government introduced the 20-year-long Agriculture Development Strategy (ADS) in 2015, but it was overshadowed after the promulgation of a new constitution and restructuring of state administration. Similarly, the government is initiating the agriculture sector credit with monetary and fiscal policy instruments. Recently, the government implemented the "Integrated Procedure on Interest Subsidy for Concessional Loan, 2019" (MoF, 2019), which marks a significant milestone in the government's efforts to

disburse credit to the agriculture sector. The government of Nepal adopted the 16th periodic plan (2024-2029), which also prioritizes agriculture as a key pillar of the domestic economy.

Despite these efforts, farmers' narratives and experiences may sometimes diverge from the intended trajectory outlined by these plans, policies, and programs. Influenced by localized conditions, cultural practices, and individual circumstances, the on-ground realities may not always align with the overarching strategies devised at higher levels. As a result, there exists a disconnect between the envisioned outcomes of agricultural initiatives and the lived experiences of farmers.

Research Method

This study adopts the qualitative approach with the constructivist paradigm. For the researchers, the paradigm focuses on the importance of social interactions, cultural context, and human experience such that learning occurs in a small group of farmers rather than individually (Johnson & Bradbury, 2015). Following the paradigm, the researchers believe that knowledge is co-constructed through the social interactions and experiences of the participants of this study (Cunningham, 2008). The researchers have a belief that researchers develop subjective meanings of participants' experiences that may be varied and multiple (Creswell, 2007). From an ontological perspective, this study views reality as subjective and multifaceted, as perceived by the recipients of agricultural credits (Saunders et al., 2009). Similarly, from an epistemological standpoint, researchers explore challenges faced by the recipients of agricultural credits, who were the participants of this study, by subjective inquiry.

This study captures detailed stories of the seven participants. Stories are important in narrative study because narratives are associated with the larger cultural context of the participants (Creswell, 2007). Stories are important in narrative study because narratives are associated with the larger cultural context of the participants. Among the participants selected purposively, three were from urban areas and five from rural regions, based on the concentration of farmers in the rural areas of Nepal. The urban area participant resided in Bhaktapur municipality (renowned for agricultural farming) within the Kathmandu Valley, and a bank manager from Surkhet Branch, who is involved in agriculture loan management, another urban participant was selected from Birendranagar, Surkhet, using convenience sampling, operating a multipurpose agriculture business. One rural area participant from Thakre rural municipality of Dhading district operated poultry and goat farming by taking an agriculture loan from the microfinance. The other three rural area participants were selected from the Karnali Province (Karnali Province is popularly known for operating organic and traditional farming practices and emerges as a local brand in agriculture production). The participants' names were replaced with pseudonyms to hide their identities.

Among the participants of this study, "Phewa" operated a business with credit; "Rupa" took a loan but redirected the funds for a different purpose. The third "Ganga" participated in the interview and explored how she fell into a debt trap after taking a loan and eventually relocated abroad in search of foreign employment, leaving responsibilities to their spouse. "Begnas" operated poultry and buffalo farming along with fruit farming. Similarly, Participant

"Tilicho" was raising pigs, the sixth participant "Rara" utilized a concessional loan for goat farming together with cultivating fruits, and the seventh participant "Bulbul" promoted cow and buffalo farming by adopting modern technology. In addition, we also discussed with a bank official, "Kulekhani," to explore his view from the supply side of loans, who witnessed the entire concessional loan disbursement process and facilitated farmers in his capacity as a branch manager. However, Kulekhani was not considered a participant because his view was supplementary in this study. Therefore, six of the seven participants of the study were male, and one was female. In addition, secondary data related to agricultural credit was also analyzed. The participants were selected purposively among those with rich experiences receiving and utilizing loans for their farming (Liamputtong, 2019).

Data from the study were collected by using interview techniques. Before conducting interviews, preparatory work was undertaken, including drafting a tentative framework of questions with potential themes. Then, in-depth interviews were conducted to delve deeper into their experiences. Open-ended questions were posed, focusing on their daily activities. These questions typically began with "Why?", "How?" and "What if?" to elicit comprehensive responses. Handwritten notes were taken during the interviews. A reflective writing note was crafted based on field experiences. Following the interviews, the data were transcribed, coded, and categorized. Finally, the data were interpreted and analyzed to extract meaningful insights.

Table 2 : Summary Information of Participants and the Major Issues Highlighted by Them

Case	Age	Sex	Works	Address	Loan (NPR/ million)	Financial Institution	Major issues
Phewa	28	M	Poultry and Goat farming	Dhading	2	Microfinance	Collateral verification, Installment not fully received, bank staff's behavior
Rupa	26	M	Poultry, Buffalo, Cow farming	Bhaktapur	6.4	Commercial Bank	Financial statement manipulation, a high-interest rate loan transferred
Ganga	30	F	Buffalo, Goat, and Cow farming	Dhading	1.2	Microfinance	Unable to repay the loan, lack of business skills, husband left for foreign employment
Begnas	45	M	Agribusiness-Multipurpose	Surkhet	2.2	Commercial Bank	Utilize a loan and want to expand the project, poor irrigation facility

Case	Age	Sex	Works	Address	Loan (NPR/ million)	Financial Institution	Major issues
Tilicho	42	M	Agro-farm		1.5	Commercial Bank	Weak financial support, poor coordination, great loss due to the Swine Flu outbreak
Rara	37	M	Agriculture and Livestock farming	Surkhet	1.2	Commercial Bank	Business run by family members, focusing to local species, low rate of return, complicated loan process, difficult loan approval
Bulbul	52	M	Cow and Buffalo Farming	Surkhet	9	Commercial Bank	Irregular payment, higher cost for new technology, need of infrastructure development, Mixed of many loans.

Following Lincoln and Guba (1985), who proposed several methods to enhance credibility, such as providing detailed descriptions, engaging with the subject for extended periods, maintaining consistent observation, and seeking feedback from peers, strategies for credibility were adopted in this study. For example, the interpretation of the findings was based on consulting various sources, including existing literature, personal reflections, and observed artefacts.

To uphold ethical standards, the authors adhered closely to the guidelines proposed by Denzin and Lincoln (2011). This means that authors obtained oral consent from all participants, ensuring their right to privacy and protecting them from potential harm. If farmers felt uneasy about disclosing sensitive information about their business and integrity, the authors would respect their privacy and not force them to disclose sensitive information. To maintain anonymity, each participant was assigned a pseudonym while still acknowledging their contributions to the research.

Results

This section provides a detailed description of the themes identified during data analysis. The study's findings reveal that farmers mainly face challenges such as low financial awareness, difficulties in obtaining loans, collateral valuation complications, struggles with

repayment, misunderstandings within families, and obstacles in optimizing funds when dealing with agricultural sector credit. In addition, the relatively easy insurance process, the difficult reimbursement of losses and damages of insured property, and the poor monitoring mechanism of firms by using technology are some of the major issues that need to be addressed to simplify the agricultural loan process.

Financial Awareness and Its Impact on the Loan Acquisition Process

Grohmann et al. (2018) found that a higher level of financial awareness is associated with better financial inclusion in developing countries. This finding also validates the perception of the sixth participant, who highlighted that the loan process is lengthy and complicated, making it difficult for ordinary farmers to access loans from banks and financial institutions in Nepal. Once agricultural credit is disbursed, receiving regular updates about their installments, interest rate changes, and other essential information via mobile communication is difficult.

This study also highlights the importance of financial literacy while receiving agricultural credit. The first participant shared that their understanding of the loan application process relies only on the voice of microfinance officials who regularly visit their community to collect instalments. Participant "Phewa" of age 28, engaging in poultry and goat farming, further highlights:

> *I met with this staff member many times, although I do not know his name. During these meetings, I expressed interest in obtaining a loan from the microfinance office. These interactions taught me about the loan application process, the amount of interest to be paid, and other relevant details.*

He believed personal connections with bank officials were essential for securing loans, highlighting a common misconception. He emphasized that without such connections, obtaining financial assistance seemed nearly impossible. He expresses as:

> *I attempted to secure a loan from various banks and financial institutions to start my venture, but was unsuccessful. I realized that having connections in banks or financial institutions would increase the chances of obtaining a loan.*

Likewise, female participant "Ganga" of age 30 demonstrated awareness of various avenues for securing loans from microfinance institutions and other entities. However, she admitted to a lack of crucial risk management skills within her business endeavors. She stressed the importance of crafting a solid plan, recognizing that navigating the terrain of business loans without a strategic approach posed significant risks. She highlights her experiences as:

> *We learned how to get a loan from microfinance and other institutions, and which sectors can apply for it. We also found out about the interest rates. However, we lack the skills to manage risks in business. Without a plan, running a business with loans is very risky. This experience taught us an important lesson for the future.*

Hence, these anecdotes underscore the need for targeted interventions to enhance farmers' financial literacy and risk management skills. Karki et al. (2023) also highlighted that strong financial awareness enhanced confidence in utilizing an agriculture loan. By addressing these gaps, one can empower individuals to make informed financial decisions and navigate the complexities of entrepreneurship with greater confidence and resilience.

Farmers usually feel comfortable getting a loan, especially when signing and receiving the initial payment. However, they face difficulties with further installments. Participant “Phewa” submitted the documents to the microfinance office with his mother and wife. Even though the land certificate was in the mother's name and the bank account in the wife's name, they managed the loan approval process together. Despite challenges, they secured the loan with the land certificate as collateral. The bank staff behaved professionally during the agreement signing, but their relationship was later strained. He says:

> *At first, I went to the microfinance office and met with their staff. I brought my mother and wife along, carrying a land certificate and a recommendation letter from the ward office to apply for the loan. My mother and wife had to come because the land certificate was in my mother’s name, while the bank account was in my wife’s. My mother agreed to use the land certificate as collateral for the loan. The loan amount was decided to be deposited into my wife’s bank account.*

In another case, a farmer got a loan through a friend's connections, making payments smoothly. However, he struggled when faced with financial losses and had to fabricate profitability in reports to avoid bank issues, adding to his financial stress. Participant “Rupa, a male of age 26, expresses:

> *Banks can be tough to deal with. Even though I was facing losses, I had to show a profit in my financial report to avoid problems with the bank. It was necessary for me. So, I showed a profit and paid Rs. 50000 as income tax at the Inland Revenue Office. Similarly, I paid Rs. 5000 as house rent tax.*

These stories highlight farmers' challenges in managing loans and maintaining good relations with banks. This issue is also underscored by Ghimire et al. (2024), who observed that income, age, and education level of borrowers are key drivers of financial planning decisions; however, individual behavior also plays an important role in financial management. To address these challenges, improved financial literacy and supportive banking practices, rather than demanding fabricated financial reports, are essential for the sustainable financial health of agricultural farming.

Repayment Struggle

Farmers are struggling to repay loans. One participant regrets taking a loan and feels pressured to repay it with his low income. To ease this pressure, he is considering a job overseas where he could save more. Participant “Phewa” says:

> *I feel that taking out a loan was a big mistake, and I am not inclined to take on any more debt. I am currently contemplating going overseas for a job opportunity where I could save Rs. 40000 Monthly.*

"Ganga", 30 30-year-old female, burdened with loans from various sources, finds herself stuck in a debt cycle. Under this pressure, she sought work overseas and is now employed in Saudi Arabia. She explains:

> *I firmly believe in paying our loans on time. I have been consistently paying our instalments. The staff from microfinance, cooperatives, and small farmer development programs visit our home often to collect payments. Overall, they are polite, but sometimes they pressure her. So far, they haven't made things too difficult for me, but I worry they might in the future.*

Some banks are strict about non-payment. If customers don't pay regularly, the bank staff can be stern. For larger loans, the bank may send a security guard to the customer's house if payments are overdue for four or five months. This can affect the customer's social standing, and they must cover the guard's expenses. Such experiences lead to negative views about the bank. Alam & Nazeer (2019) explored several issues, like crop failure, changes in monsoons, collateral security, loan formality procedures, and lower yields in agricultural production, which created constraints for obtaining and timely repayment of agricultural credit.

Family Consensus-

Family consensus is another issue for farmers. One family's decision to pursue agricultural sector credit is met with mixed opinions. One member, eager to invest in farming, encounters resistance from his wife, who prioritizes caring for their children and taking on additional financial risk. She prefers waiting until their kids are older and in school before considering such ventures. However, his mother stands in contrast, offering him full support for obtaining the loan and engaging in productive agricultural activities, highlighting the differing perspectives within the family dynamic. Participant "Phewa" says:

> *My wife is busy looking after our three daughters and cannot help with poultry and goat farming. I am in Kathmandu and cannot devote enough time to it either. My wife thinks it is not a good time to take a loan for farming. She prefers waiting until our children are older and going to school, so we will have more time to work in the fields. We can consider taking a loan then.*

In another family, a similar dilemma unfolds as one member seeks support for accessing credit to invest in agriculture. However, he faces parental opposition, as they advocate pursuing a stable job in a company or institution rather than venturing into the agricultural sector. Despite their aspirations, the lack of encouragement from their parents presents a significant obstacle to realizing their agricultural ambitions, underscoring the challenges of familial expectations and divergent career paths. Participant "Rupa" presents his story:

> *I am involved in cow farming out of my drive and motivation. However, my parents prefer that I pursue a job in a company or institution rather than be involved in agriculture. They have not encouraged me to do agricultural work.*

Meanwhile, in a separate scenario, a family member takes a drastic step by leaving their business responsibilities behind and seeking employment abroad. Despite taking out a loan before departing, the burden of repayment is left squarely on the shoulders of their family. This decision creates turmoil within the household, as the financial strain and discord over the loan repayment spread tension and discontent among family members, illustrating the potential consequences of individual actions on familial harmony and financial stability.

Challenges in Fund Optimization

Regarding fund optimization, different people have different ideas. One participant felt it was a big challenge to repay the loan and planned to go overseas to search for jobs. Another participant is thinking about how to keep this business going strong. If he gets the chance, he will aim to invest more in his business and expand the size of the farm. Participant "Rupa" highlights:

> *I plan to pay off my current loan with my existing bank and take out a new loan from another bank offering concessional interest rates. I want to transfer my existing loan through a swap if possible. Additionally, I want to apply for an extra loan.*

Another participant, "Ganga," plans to return from overseas with an investment plan. She aims to use some part of her remittance to pay off some of the principal and interest of loans. This will help reduce the total amount she owes. Then, she aims to invest in some high-quality cows and many chickens. Participant "Ganga" further says:

> *When my husband returns from Saudi Arabia, he'll bring back some money. I plan to use part of this money to pay off some of our principal and interest loans. This will help reduce the total amount we owe.*

This way, participants hope to balance their income and expenses for the future, but fund optimization seems a big challenge for them.

Discussions

From the bank's perspective, delegated monitoring theory explains why banks invest in monitoring systems or ask for collateral to ensure credit repayment (Diamond, 1984). Transaction cost theory shows that banks prefer low-risk, easy-to-assess clients and minimize costs. Information asymmetry makes banks cautious, often limiting credit to farmers due to uncertainty or unreliable information (Rindfleisch, 2019). From the farmer's perspective, rational choice theory explains why they may avoid taking loans if they fear high interest rates, repayment risks, or complicated procedures (Mwonge & Naho, 2022). Information asymmetry can lead farmers to distrust banks, perceiving credit as inaccessible or unfair due to the lengthy documentation process (Awunyo-Vitor, 2018). Transaction costs, like paperwork and travel,

may discourage them from applying for credit. The participants' views are consistent with the key ideas of these theories.

In the context of agricultural credit, banks and financial institutions can attempt to minimize these transaction costs to make loans more accessible to farmers. By lowering transaction costs, banks and financial institutions can offer loans to more farmers at reduced costs, enabling them to repay principal and interest more easily. This approach benefits farmers by making credit more affordable and helps them manage their funds more efficiently. Optimizing the cost structure of lending improves financial outcomes and overall agricultural productivity.

Rational choice theory (Mwonge & Naho, 2022) suggests that people make decisions based on what benefits them the most. This theory is closely related to three major issues farmers face: financial awareness, repayment struggles, and family consensus about agricultural loans. When farmers seek agricultural credit, they assess the costs and benefits to make informed decisions. Effective rational decision-making requires adequate financial knowledge. With a clear understanding of rational choice theory, farmers can develop well-structured repayment plans, alleviate their financial burdens, and simplify their lives. Without this knowledge, they may face increased complexity and ongoing struggles.

In the literature, different scholars explored the diversified factors impacting access to agricultural credit. In this journey, Yadav and Sharma (2015) classified them into three categories: individual, economic, and other factors. It explores different challenges related to credit to the agricultural sectors and summarizes the issues into five points: financial awareness and its impact on the loan acquisition process, repayment struggle, family consensus, and challenges in fund optimization. Future studies can focus on exploring the factors that influence access to agricultural credit, concentrating on these four issues.

Conclusions and Implications

The farmers face challenges such as low financial awareness and its impact on the loan acquisition process, repayment struggles, family consensus, inefficient insurance schemes, and obstacles in optimizing funds for agriculture credit. The farmers hardly harness the Central Bank's monetary policy, which requires commercial banks to invest some credit in the agriculture sector. Further, to address the challenges faced in accessing credit within the agriculture sector, stakeholders (including banks and financial institutions and individual farmers) can play crucial roles. The government can introduce financial literacy programs and other policy supports. Farmer's access to credit and proper utilization of agricultural credit must be ensured. The agricultural credit must promote the adoption of new technology, enhance productivity, and contribute to the value chain in a circular linkage with the other sectors of the economy. In contrast, banks and financial institutions can handle flexible loan products, restructure and redefine the business process of collateral valuation together with an insurance mechanism, loan approval and repayment method, build capacity for loan-receiving farmers, utilize corporate social responsibility (CSR) funds to empower farmers, and introduce risk management strategies. Similarly, individual farmers can follow continuous learning, transparent communication, and financial planning.

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