Small Farmers, Big Credit Gaps:
Case Study on Government Credit Assistance to Maize Smallholder Farmers in Katyanggaun, Gadhawa Rural Municipality of Dang District, Nepal

Overview of the agricultural sector

Agriculture forms part of the backbone of the Nepali economy that provides food, shelter, employment, and livelihood opportunities for the Nepali people. It has contributed to more than 60 percent of households (CBS, 2017), 66 percent of employment (MoALD, 2015/16), and 26.5 percent share to the nation's gross domestic product (GDP) (MoF, 2020). Agriculture with livestock is big source of livelihood for the majority of Nepalese in rural area. It is, however, subsistence agriculture; most people have been engaged in it mainly for livelihood. Modern technologies and tools have yet to become key components of the agriculture sector.

Agriculture system

Currently, Nepal has adopted the federal government system and has three tiers of governments – local, provincial and federal. Agriculture is devolved with the institutional adoption of federalism. As such, all levels of government are equally responsible for agriculture development as agriculture sector has been kept as the concurrent rights in the Constitution of Nepal. However, the burden of responsibility of implementing agriculture-related programs weighs heavily on local governments because of their direct link to the people at the community level.

Definition of smallholder farmers

According to the Ministry of Agriculture and Livestock Development (MoALD), a producer who owns or farms on land less than half a hectare (i.e., 15 katha in Terai or 10 ropani in Hill) are called smallholder farmers. Smallholder farmers have other sources of income such as foreign employment, wage labor, sharecropper, and government employees. In Nepal, 2.7 million smallholder farms account for 70 percent of food production. A report by the Food and Agriculture Organization of the United Nations (FAO) (2018) reveals that the per hectare productivity of smallholder farmers is at least twice higher than that of other farmers because they work three times more than others.

Major policies on land, agriculture, and food security

The Constitution of Nepal. The preamble of the Constitution of Nepal clearly states that all people are equal in dignity and the State does not discriminate any citizen based on his/her caste and ethnicity, origin, historical background and other features. Article 51(E) of the Constitution provides for the Policy Regarding...
Agriculture and Land Reform which clearly states that farmers will have equal access in modern agriculture technology and irrigation facilities.


Nepal has yet to enact a National Agriculture Act. CSOs are frequently demanding for the formulation of an Integrated Agriculture Act for agriculture development, but the legislation of the Integrated Agriculture Act has not been finalized yet. MoALD said it was collecting recommendations from stakeholders for the Integrated Agriculture Act in Nepal. Once this is enacted, the agriculture grant scheme will be widened in scope and the farmers will get the bulk of subsidies, the Government of Nepal said.

The country has legislated three key laws directly affecting agriculture and food security. These are:

**Land Use Act 2019.** It categorizes the total land area into 10 zones, where the land which is segregated for one purpose cannot be used for another. This aims to protect agricultural land by controlling conversion of land for non-agricultural purposes. This Act has also provided responsibility to the local governments to monitor and implement the land use plan at the local levels. **Clause 22** of this Act stipulates that the Government of Nepal provides subsidies and incentives to smallholder farmers who protect agricultural land and ensure optimum utilization of agricultural land.

**Land Act 1964 (8th Amendment).** It provides land certificates to landless and informal settlers who have cultivated unregistered land for more than a decade and are deprived of tenure security. Its main objective is to increase the livelihood options of landless and informal settlers through the establishment of land to the land-deprived communities. With tenure security, the landless and informal settlers are able to take credit from government or private institutions. The Land Related Regulation was formulated to implement the Land Act 1964 (8th Amendment).

**National Land Use Policy 2015.** It adopts sustainable land management, development and prosperity as its vision. It has six main objectives: a) tenure of security; b) access to land for landless or land-poor farmers; c) land use; d) land taxation, valuation and land market; e) land acquisition; and, f) strengthening of land administration in Nepal. This policy has categorized land tenure into three: formal, informal, and non-formal. It has also recognized customary land as a one of the categories of formal land tenure system in Nepal. Another important provision of
this policy is the prevention of leasing agricultural land to foreign companies. However, according to the policy, the landowner can give his/her land on lease to Nepali investors by obtaining approval from the local governments. Local governments will be responsible for keeping the registration of land lease.

**Right to Food and Food Sovereignty Act 2018.** It provides measures to be taken for the Right to Food and Protection from Food Insecurity. The Government of Nepal, Provincial and Local Governments, shall, in mutual coordination, make necessary arrangements considering available resources for respecting, protecting and fulfilling rights as stated in the Constitution of Nepal.

**National Standards of Organic Agriculture Production and Processing 2007.** It clearly states the promotion of organic farming and modern tools and subsidies to farmers. These include technical support and training to the farmers who conduct organic farming.

**Monetary Policy of 2020.** It clearly mentions that all commercial banks should allocate 11 percent of credit for agriculture sector especially smallholder farmers.

**Climate change, tenure, and agriculture**

The linkages between climate change and land tenure are always indirect and multi-faceted. However, the implications of climate change to land tenure governance in fragile landscapes everywhere are more visible (CSRC, 2020). Climate change has adversely affected the agriculture sector in Nepal as the farmers especially smallholder farmers are facing acute water shortage. The traditional water resources are now depleted and the productivity of agriculture land is decreasing by the day. Though there are several grant programs promoting advanced technology for agri-business, the smallholder farmers still struggle against production loss due to the lack of irrigation system in their village. At the same time, the traditional local seeds of villages have been replaced by the non-organic hybrid seeds, and this has adversely affected land productivity. The degradation of land productivity has made it difficult to grow crops without using chemical fertilizer these days. Lack of monsoon on time converted agriculture land for non-agricultural purposes such as human settlement, forestation, and other priorities of farmers have compelled them to abandon farming.

**Situation of smallholder farmers and their sources of credit**

Nepal has 2.7 million smallholder farmers who comprise 62.8 percent of the country's total number of farmers (Ministry of Agricultural Development, 2015). From a livelihood perspective, there are mainly two types of farming in Nepal – subsistence and cash crop farming.

Approximately, 84 percent of Nepalis live in rural areas and depend on subsistence agriculture for their livelihoods and to provide food for themselves. Their key subsistence crops include paddy, millet, maize, wheat, and barley, while key cash
crops are oilseed, potato, tobacco, sugarcane, jute, cotton, and rubber. According to the Central Bureau of Statistics (CBS), 55 percent of Nepal’s agricultural land is planted to key crops paddy, maize, wheat, millets, and barley.

Table 1. Key characteristics of a smallholder farmer

<table>
<thead>
<tr>
<th>Average size of land</th>
<th>Less than half of a hectare</th>
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</thead>
<tbody>
<tr>
<td>Tenurial status</td>
<td>Owner-cultivator</td>
</tr>
<tr>
<td>Estimated number of smallholder farmers in the country (as of 2012)</td>
<td>2,007,019 HHs*</td>
</tr>
<tr>
<td>Average number of household members per family</td>
<td>4.5**</td>
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<tr>
<td>Average annual income (in US Dollars)</td>
<td>1,196 ***</td>
</tr>
</tbody>
</table>

Sources:  
* Sample Agriculture Survey Report: Census, 2012  
** Annual Household Survey 2016/17: CBS  
*** Economic Survey 2020/21: MoF

The smallholder farmers live in villages and are below the poverty line. They make up 70 percent of the population who produce several agricultural goods. Many smallholder farmers conduct subsistence farming to sustain their family. Even though Nepal is endowed with the resources needed for high land productivity, many households, particularly in its mountainous regions, experience food shortages for four to nine months a year, according to FAO. More than half of the districts in Nepal are considered food-deficient. Low agricultural productivity result from fragmented subsistence farming, poor technical knowledge, and, lack of irrigation facilities. Erratic weather patterns, pest epidemics, lack of fertilizers, and poor quality of seeds exacerbate the problem.

There are two cropping seasons in Nepal. During the summer cropping season (June to September), smallholder farmers plant rice, maize, and millet. In the winter cropping season (October to May), they plant wheat, barley, and potatoes. However, climate change has adversely affected the cropping seasons; there is no rain during the summer cropping season and, there is heavy rainfall during winter cropping season.

There are mainly two types of financial sources for credit: non-institutional and institutional sources. The various non-institutional sources are moneylenders and landlords, traders, and private borrowings. Institutional sources are cooperatives, Agriculture Development Bank, Limited (ADBL), commercial banks, micro finances, NGOs, and other financial institutions.

The research study

Statement of the problem

Although there is no standard definition of agrifinance in Nepal it can be defined by practice as the financial services and credit for short, medium, and long-term to crop, livestock, agriculture insurance covering the entire agriculture value chain, input supply production, distribution, wholesaling, processing, and marketing.
Agri-credit is rising in Gadhawa Rural Municipality of Dang District and smallholder farmers are attracted to take out loans for agri-business from different financial institutions. However, loan disbursements have been concentrated in urban and semi-urban areas.

The Government of Nepal has claimed that it has encouraged smallholder farmers to go into agri-business and take advantage of credit available from the government institutions. It has formulated several policies related to the agriculture credit system, but it does not have a mechanism to monitor the implementation of the credit program for farmers from commercial institutions. Even ADBL's credit for smallholder farmers, which is one of the mechanisms developed by the government, does not extend any credit to landless farmers who are unable to submit land certificate as a mortgage.

The government has also introduced the Prime Minister Agriculture Modernization Project (PMAMP) through the Ministry of Agriculture and Livestock Development (MoALD) with the aim at providing support to smallholder farmers to produce corn.

Both programs are equally important in improving the lot of smallholder farmers and for the overall agricultural development in Nepal. Gadhawa area of Dang District has been selected for maize superzone. The program has benefited 6,264 farmers, including 4,300 women smallholder farmers. PMAMP covered 2,310 hectares for maize production with subsidies for irrigation, machineries, and modern agriculture seeds. The government has claimed that these programs have contributed to the holistic development of smallholder farmers. However, no proper study and monitoring have been conducted to support this claim. Hence, this study will aid policy advocacy for the benefit of smallholder farmers. The study's findings may also be used as reference for those who want to conduct studies on agri-credit for certain crops.

This study is guided by the following research questions:

- What is the implication of the PMAMP and ADBL credit program especially for the benefit of landless and smallholder farmers?
- How is the government's credit program being implemented in municipality of Gadhawa in the district of Dang?
- What are the strengths and challenges of PMAMP and ADBL credit program?
- What is the role of PMAMP and ADBL credit program for agriculture development?
- What are the policies related to government's agriculture credit system in Nepal?

**Objectives of the study**

The general objective of this study is to examine the relevance, usefulness, appropriateness, accessibility of existing government production credit assistance
for maize smallholder farmers in Gadhawa Rural Municipality of Dang District. Other specific objectives of this study are outlined below:

- **Relevance and Usefulness**: Analyze the contribution of the agri-credit scheme of ADBL and grant program of PMAMP taking into consideration the situation and needs of smallholder farmers, particularly those from the Gadhawa Rural Municipality;

- **Appropriateness and Accessibility**: Examine whether the policies and procedures of the credit program are aligned with the capacities of smallholder farmers and analyze whether they are flexible and considerate enough for the farmers; and,

- **Recommendation**: Propose recommendations to the government to improve smallholder farmers' access to and use of such credit program through policy reforms and institutional development.

**Study methodology**

This descriptive and exploratory research is guided by both qualitative and quantitative methodologies. Primary data collection was conducted through face-to-face conversations with smallholder farmers, government personnel, and local representatives. Secondary information was sourced from literature review, scholarly articles, and reports of government and non-government organizations.

**Study area.** Gadhawa Rural Municipality is about 400 kilometers from Kathmandu, capital city of Nepal and belongs to western Terai in Lumbini province of Dang District. Its total population is 11,430, based on the 2011 census. Of its total population, 6,687 have been affiliated with the maize superzone program under PMAMP. Sixty-four percent or 4,300 are women smallholder farmers. The indigenous Tharu-dominant Gadhawa has productive and fertile land for crop cultivation. Maize, paddy, mustard, sugarcane, and wheat are major crops produced by the farmers in the study area. This study was mainly focused in a Tharu community of Katyanggaun of Gadhawa Rural Municipality, Ward No. 4. Out of 55 small farmers who are also the beneficiaries of PMAMP and ADBL, 27 were consulted to take necessary data for this study.

Since both PMAMP and the agri-credit program of ADBL are being implemented in Gadhawa Rural Municipality, it is very important to have a micro-study for the policy amendment and policy implementation for agricultural development. PMAMP has kept Gadhawa Rural Municipality as one of the most important areas for maize superzone. CSRC has been implementing a program called Empowering Rural Producers in Commercial Agriculture in Gadhawa Rural Municipality. PMAMP and ADBL are also focused on the smallholder farmers, providing them grant support and agriculture loan.
Methods. To conduct this study, a concept note was prepared and shared among team members of CSRC and finalized after the consultation of the team members. Field level staff were also consulted to take preliminary data of PMAMP and ADBL credit program. A checklist was prepared before moving to the field for Focus Group Discussions (FGD) and Key Informant Interview (KII). The study team conducted field visits from 6 to 11 April 2021 for FGDs, KIIs, and observation of the study area. The checklist had some guiding questions for the study team to generate qualitative and quantitative data. A brief introduction of the methods applied for this study is summarized below:

- **Focus Group Discussion.** Two FGDs were conducted with smallholder farmers (those who are the beneficiaries of PMAMP and ADBL credit program). The FGDs had 17 participants (eight for the first FGD and nine for the second). Six of the participants were women.

- **Key Informant Interview (KII).** Seven smallholder farmers who are beneficiaries of both programs were consulted to collect data for the study. In addition to this, the agriculture officer of PMAMP, acting in-charge of ADBL Gadhawa office, agriculture officer of Gadhawa Rural Municipality, and some big farmers (who own more than 0.5 hectare of land) were interviewed to collect necessary data for this study.

- **Document Review.** Secondary data for the study were obtained from different national and international journals, and periodic reports of government and non-government organizations. The scholarly articles, and policies and plans of local governments were reviewed and taken as references while writing this report.

- **National Validation Workshop.** After the field visit and completion of the first draft of the study report, a national validation workshop was organized on 30 July 2021 with the participation of ADBL representatives, PMAMP, MoALD, and other CSOs members. The comments, suggestions, and feedback from the workshop participants have been included in this report.

**Limitations of the study**

This study was conducted in Gadhawa Rural Municipality of Dang District. Due to the rise in COVID-19 cases and the restrictions related to the government's health protocols, this study was more guided by secondary information especially from past studies. Some FGDs and KIIs were done through field visits at the study area. This only covers the ADBL credit program together with grant scheme of PMAMP. The data collected from the farmers, government's stakeholders, and respective program team of Gadhawa Rural Municipality may not represent the agri-credit situation of all of Nepal.

**Brief overview of the selected farmers and crops**

PMAMP confirmed that Gadhawa Rural Municipality is appropriate for maize production. According to its guidelines, PMAMP will assist the farmers to purchase
new agriculture technology and to manage irrigation facilities to increase production in Gadhawa. The grant support varies from 50 to 85 percent, depending upon the agricultural production and income sources of farmers. However, most of the grant support was for the management of irrigation in the villages. The Gadhawa branch of the ADBL also provided credit to smallholder farmers for agri-business and the adoption of modern agricultural technologies. Most of the smallholder farmers of Gadhawa are affiliated with both programs. According to the database of PMAMP, a total of 6,687 farmers including 4,300 women benefited from both programs in Gadhawa Rural Municipality. PMAMP and ADBL do not support and provide loan to the farmers who do not have tenure security (i.e., own land). Beneficiaries need to submit land certificates as mortgage when taking out loans from ADBL and grant from PMAMP.

The smallholder farmers do not have more than 0.5 hectare of land and their average land size is 0.167 hectare. According to Gadhawa Rural Municipality, the average size of the family of each household is five and almost all are dependent on the agriculture. They earn NRs 5,000 to NRs 7,000 (approximately USD 42 to USD 59) from one hectare of land.

Generally, there are mainly two cropping seasons: summer cropping season (June to September) and another is winter cropping season (October to May) in Gadhawa. In the summer cropping season, farmers grow rice, maize, and millets, while their winter crops are wheat, barley, and potatoes. Summer crops are harvested from November to December whereas winter crops are harvested in April until May. According to the smallholder farmers, they produce around one quintal crops per 0.667-hectare area of land. Production cost varies from time to time. However, most of their produce are used for their own consumption.

Organization of study

This report is divided into five chapters. The first chapter summarizes the situation of agriculture in Nepal, objectives of the study, methodology, and a brief overview of the selected crop of the study area. The second chapter includes the role of credit in agriculture of smallholder farmers. This chapter also analyzes the major policies and legal frameworks. The third chapter analyzes the rationale for the choice of government credit program, description of chosen program, clients of the program, and major strengths and challenges of this credit program. The fourth chapter summarizes the credit needs for smallholder farmers, factors that constrain farmers from taking out agriculture credit, the COVID-19 pandemic, and, special requirements of smallholder farmers. Finally, the fifth chapter concludes the study with some recommendations for policy and institutional reform for the inclusion of smallholder farmers in agri-credit program.

The role of credit in agricultural development of smallholder farmers

The Government of Nepal has set up several legal and institutional arrangements for ensuring agri-credit for smallholder farmers. With the main objective of providing institutional credit for enhancing the production and productivity of the
agriculture sector, the ADBL was established under the Agriculture Development Bank Act 1967. The ADBL provides six types of credit: a) agricultural loan, b) livestock and poultry credit, c) fishery and aquaculture credit, d) agricultural mechanization, e) storage, and, f) processing to the smallholder farmers for agriculture development. In fiscal years 2020 to 2021, 671 farmers (130 women) received NRs 41,460,000 (approximately USD 346,881) from Gadhawa branch of ADBL. Of the 671 farmers, 55 received NRs 30,000,000 (approximately USD 250,999 or an average of USD 4,564 per farmer) for agriculture production (ADBL, n.d.).

The ADBL staff in Gadhawa claimed that the loans contributed to holistic development such as educational, economic, psychological, and social well-being of farmers. However, the farmers stated that due to the dual provisions, the loans benefited only the big farmers who earn huge amounts of money and invest it in other business sectors. These provisions are: a) credit to the agri-farm which invests huge amount of money for agriculture development and owned by big farmers, and, b) credit for smallholder farmers who receive a nominal amount of credit from the ADBL. A farmer during KII said, “The big farmers register agri-firms, earn huge amounts of money, and, invest in other businesses. They buy trucks, tractors, and, establish rice mills. The smallholder farmers only produce crops for survival and a minimum amount is sold in the market. The profit margin is only enough for their daily needs such as rice, oil, salt, soaps, and, for children’s school uniforms.”

Principally, ADBL provides loan to the farmers at 8.5 percent of interest rate for agriculture development. However, it provides subsidy to those who register agriculture and livestock farm and conduct agri-business. As per the scheme, the farm houses should only pay five percent interest rate in ADBL loan but the smallholder farmers who take out loans for agriculture development should pay 10 percent of interest rate without any subsidy. The smallholders farmers shared that those who own five or 10 hectares of land can invest in agri-businesses such as poultry, cow farming, and vegetable farming in larger land areas and earn enough money. Their lifestyle is better than those who earn less amount of money because of lack of sufficient budget for investment. According to the farmers, they also spend the credit for other purposes – education of their children, to pay off loans to their landlords, and to buy daily staples.

The Chairperson of Gadhawa Rural Municipality Sahajram Ahir said, “We have realized that the local government should have monitoring mechanisms to examine the impacts of the credit system of ADBL and PMAMP grant scheme.” The irrigation and seeds subsidies provided by the PMAMP are said to have boosted production in the village. However, there is no study showing the contribution of credit to agricultural development. It has been observed that the ADBL grant program and grant scheme of PMAMP encouraged the farmers to conduct farming not only for subsistence but also to sell in the market.

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1 Based on the KII with ADBL staff in Gadhawa branch office
2 Based on the FGD with farmers in Katyangau of Gadhawa Rural Municipality
3 Ibid
4 Based on the FGD with farmers in Gadhawa
There are some negative consequences of credit in Gadhawa. According to the farmers, the landless or those who do not have land certificates are deprived of credit or grant support from the government's program. Those who do avail from ADBL or PMAMP are more dependent on grants rather than getting funding to buy seed or irrigation materials.

The farmers also take out loans from other financial institutions for their daily household businesses. According to the smallholder farmers, they get credit from ADBL at minimum interest rate so they use this pay off loans from other financial institutions such as micro-finance institutions, commercial banks, and cooperatives. They shared that there is no grant and credit support from non-government organizations but the provincial government is recently implementing a program for the agricultural grant to the smallholder farmers in Gadhawa.

Policy environment on government agricultural production credit assistance

Nepal has several legal frameworks which seek to address the issues and concerns of smallholder farmers. Part 4 of the Constitution of Nepal has policies relating to agriculture and land reforms which focus on the modernization and industrialization of agricultural production. Article 51(E) of the Constitution of Nepal states that smallholder farmers will be encouraged to venture into modern agri-business to improve their livelihood options.

Land Use Act 2019 has categorized the total land area into 10 classifications, where the land which is segregated for one purpose cannot be used for another. This categorization of land supports to protect agricultural land by controlling the tendency of land conversion for non-agricultural purposes. This Act also provided responsibility to the local governments to monitor and implement the land use plan of local governments. Clause 22 of this Act stipulates that the Government of Nepal provides subsidies and incentives to smallholder farmers who protect agricultural land and ensure optimum utilization of agricultural land.

Land Act 1964 (8th Amendment) has provisions to provide land certificate to landless and informal settlers who have been cultivating unregistered land for more than a decade and are deprived of tenure security. The main objective of this Act is to increase the livelihood options of landless and informal settlers through the establishment of land to the land deprived communities. After the establishment of tenure security, the landless and informal settlers are able to take credit from government or private institutions.

Agriculture Perspective Plan (APP) 1995 stresses on massive investment in the agriculture sector by providing agri-credit to farmers and subsidies in key agriculture inputs such as irrigation, fertilizer, machinery, and rural agriculture roads. APP sets ambitious targets and an agri-credit system for the sustainable development of smallholder farmers within 20 years.
To implement APP, the Government of Nepal has formulated some other policy frameworks such as the **Agriculture Development Strategy (ADS)** which clearly states that the Government of Nepal will prepare a 10-year Action Plan and Roadmap and a rationale based on the assessment of the current and past performance of the agriculture sector. The ADS 2014’s vision is: “A self-reliant, sustainable, competitive, and inclusive agriculture sector that drives economic growth and contributes to improved livelihoods and food and nutrition security” (Ministry of Agricultural Development, 2014).

**Agri-business Promotion Policy 2003** offers loan subsidies for the farmers through ADB or other commercial banks. Of the total 10 percent interest rate in agriculture credit, government subsidy will cover five percent while the farmer who registers for agri-business takes care of the other five percent. Although these policies are judged to be sound in design and exclude the smallholder farmers to get agri-credit (Kaini, 2020).

The Government of Nepal developed the **National Agriculture Policy (NAP) 2004** to provide clear and comprehensive policy guidance in agriculture. This policy framework addresses current challenges and attends to future challenges facing the sector. Its specific objective is to provide guides to achieving transformation of the agriculture sector. More specifically, this policy guides Nepali farmers towards increasing production, productivity, and real farm incomes.

A comprehensive **Land Use Policy 2015** was formulated at that time when the country was devastated by an earthquake. Likewise, land plotting was growing indiscriminately in Nepal at that time. This policy states that the local government should be responsible for the protection of agricultural land through the sustainable land use plan in their territory and for the development of a strong mechanism to implement it. The local government should also control the conversion of agricultural land for non-agricultural purposes.

The establishment of organic farming has been in the discourse since 1990. However, there is no proper implementation of the technologies and processes to identify organic farming. After 1990s, several attempts have been made to encourage farmers to get into organic farming. There are some legal frameworks for organic farming which include **“Plant Protection Act 1992, Pesticides Act 1993 and Regulation 1994, Right to Food and Food Sovereignty Act 2019, Consumer Protection Act 2018 and Environment Protection Act 2019, National Standards of Organic Agriculture Production and Processing 2007**, and some other relevant policies and strategies. However, these are fragmented and inadequate. The State is yet to formulate some effective policies including laws and regulations regarding production and trade of organic agricultural products” (Pokharel and Pant, 2009).

In addition, the **Prime Minister Agriculture Modernization Program Guideline 2015** introduced superzone program farming. Based on the guideline, the PMAMP proposed maize superzone in Gadhawa Rural Municipality for agricultural development. The **Bank and Financial Institutions Act 2016** allows financial
institutions including commercial banks to release agricultural loan to the farmers. The Agriculture Loan Guideline 2019 provides agri-business loans to the farmers.

Despite these agri-credit policies in Nepal, it was found that most of the farmers are unaware about the provisions of these policies. The ADBL does not have any mechanisms to communicate its policy and program on agri-credit. Though the ADBL and PMAMP provide credit or grant to the farmers based on the provisions of the laws, the farmers do not ask the name of the acts or laws and the government's officials do not clearly state the provisions of the laws.

The farmers of Gadhawa are aware of the importance of organic farming, but they do not receive any assistance from the local governments. The local governments do not have special package or mechanisms for organic farming except a training plan on organic farming. In addition to this, the PMAMP management team claimed that their program mostly focused on the inclusion of women smallholder farmers. According to data presented by the PMAMP team members, out of 6,687 farmers who benefited from this program, 4,300 are women. The agriculture officer of PMAMP of Lamahi Kushum Bhusal said, "PMAMP encourages women farmers to take grant and decide to utilize the grant for agricultural development. As many men or husbands are away for foreign employment, the women come to receive this grant support and, as such its data shows an encouraging record on women inclusion." She further stated that PMAMP is not successful in linking this program as per the climate change indicators. ADBL also does not have any provision of loan for organic farming. There is no indicator for examining quality of production whether it is organic or non-organic.

Government credit program for smallholder farmers selected for this study

Rationale for choice of credit program

This study focuses on PMAMP and ADBL credit program. Both are implemented in Gadhawa Rural Municipality in Dang District. PMAMP has selected maize crops and ADBL provides agriculture loans to smallholder farmers. Both programs covered an area of 358.57 square kilometers. Gadhawa was selected because of the geographical coverage and CSRC's relation with communities in Gadhawa. CSRC has been implementing a new program in Gadhawa since 2019 to empower rural producers in commercial agriculture.

Gadhawa is suitable for maize farming which has been classified maize superzone\(^5\) from PMAMP, but PMAMP has not done any study to examine the implication of the program.

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\(^5\) PMAMP has categorized different agriculture zones for certain crops. The technical persons conduct soil experiment to find out the suitable crop's plantation. The soil experiment report portraits that Gadhawa is suitable for maize production and PMAMP has defined this area as maize superzone. PMAMP has 16 superzones across the country.
Description of credit program

Agricultural credit in Gadhawa is rising these days. However, most of such credit has been disbursed in urban and semi-urban areas only. The landless and informal settlers who do not have formal land tenure security are deprived of taking credit from the government's program. Credit from banks and financial institutions to agriculture sector has been disbursed mainly for financing the capital instruments like tractors, threshers, trailers, etc. The share of such credit for mini-irrigation services, fertilizer, pesticides, and improved seeds has been very low. To increase the farmers' access to better inputs and mechanized farming methods and thereby raising farm productivity, more credit should be disbursed to purchase better inputs besides capital instruments.

The Agriculture Grant System in PMAMP has also been implemented in Gadhawa for five years. PMAMP aims to raise agricultural production, productivity, management of input and technical manpower for agricultural production, mechanization, and marketing infrastructure development for the modernization and overall independency in agriculture. The project started from fiscal year 2016/2017 (2073/74 B.S.) and will run continually for 10 years until 2025/2026 (2082/83 B.S.).

The scoping study will deal with the superzones established in Dang for maize production with special focus on smallholder farmers of Gadhawa. The major objectives of superzones in Nepal are: a) increase in production and productivity of commodity; b) mechanization and commercialization; c) establishment of processing centers; d) seed production and agricultural research centers in those areas; and, e) eventually lead to independence in agricultural commodity. They will be working at national level for agricultural production.

With the main objective of providing institutional credit for enhancing the production and productivity of the agricultural sector in the country, the ADBL was established in 1968 under the Agriculture Development Bank Act 1967, as successor to the Cooperative Bank. The Land Reform Savings Corporation was merged with ADBL in 1973. Subsequent amendments to the Act empowered the Bank to extend credit to small farmers under group liability and expand the scope of financing to promote cottage industries. The amendments also permitted the Bank to engage in commercial banking activities for the mobilization of domestic resources. ADBL has been working as a premier rural credit institution since its establishment, contributing substantial agricultural credit supply in the country. Rural finance was the principal operational area of ADBL in the past. However, the Bank is also involved in commercial banking operations since 1984 to provide commercial banking services.

It has 278 branch offices spread all over the seven provinces and 77 districts of Nepal. The bank is committed to providing best banking services through its widespread network and help the government, for its part, to achieve the aim of "Happy Nepali Prosperous Nepal." ADBL provides loans to agri-farm, and smallholder farmers for their sustainable livelihood.
Coverage of program

Implemented by the federal government under the ADBL Act and PMAMP guideline, the credit programs of ADBL and PMAMP are the small assistance package to smallholder farmers. It has not been analyzed based on the value chain approach of the program. The program has targeted around 17,000 smallholder farmers who work in their farm and who have tenure security. In Ward No. 3 of Gadhawa alone, about 1,500 smallholder farmers have been targeted by both programs (PMAMP and ADBL). Both programs do not support the producers without registered land.

The average size of the targeted population is 0.167-hectare area of land. The credit interest ranges from nine to 12 percent from ADBL while the grant support ranges from 50 to 85 percent from PMAMP for the management of irrigation and modern agro-technology.

Clientele (target and actual)

Under the PMAMP, four categories of agriculture production are being implemented: a) small commercial agriculture production center [pockets]; b) commercial and agriculture production centers [blocks]; c) commercial agriculture production and processing centers [zones]; and, d) extensive commercial agriculture production and, industrial centers [superzones] development program will be launched in different parts of country according to the agro-ecological diversity.

The total budget of this project is NRs 130,740,000,000. The current running fiscal year 2020/2021 (2077/78 BS) is the fifth year of project implementation. ADBL continues to provide loans to the farmers for the promotion of agricultural production and livelihood support of smallholder farmers. The budget of the program depends on the total number of farmers in certain areas. ADBL mainly provides four loan categories:

- general loan to smallholder farmers without any registered agriculture firms for agri-business;
- agriculture development loan to farmers who register agriculture firms;
- livestock development loan to farmers who register livestock firm; and,
- fishery loan to fishermen.

General loans have been provided at an interest rate of from nine to 12 percent. Half of the interest rate is covered by government subsidy in specific loans (those provided to agri-firms). For the Gadhawa branch, there is no limit for loanable amount. Based on available data, the average amount loaned by a farmer is NRs 500,000 (approximately USD 4,183). The total number of targeted clients of the credit program is about 7,000 in Dang District and 1,700 in Gadhawa. However, a staff of ADBL in Gadhawa said that it has not proposed target clients before providing loan to the farmers. She added that the ADBL branch office submits quarterly reports and the status of budget depends on the total budget spent in each quarter.

\[ ^4 \text{Approximately USD 1.1 billion} \]
ADBL does not have any support services except agri-credit for smallholder farmers but PMAMP has grant support for agriculture tools and technologies including irrigation facilities. PMAMP mainly provides technical assistance such as machinery for harvesting and planting seeds, irrigation materials, seeds, and other materials. However, support services have not been provided free of charge as the farmers pay from 15 to 50 percent of fee for the agriculture materials and other construction such as canal and irrigation tap. A farmer during a KII said, “PMAMP provides grant in the estimated budget rather than the actual expenses of the project. The estimated budget does not represent the total expenses of the project so that farmers should pay more than the subsidy amount as stated in the policy document.”

**Repayment rates**

Loans provided by ADBL should be paid by the farmers in installment. The tranche period depends on the total amount of loan and the mortgage they submitted. A staff in ADBL branch in Gadhawa shared that, “We provide green card to those who are old and pay tranche amount on the stipulated deadline.”

The green card holders can be provided a bigger minimum mortgage based on the previous record. The total amount of the loan has been calculated as Equated Monthly Installment (EMI) system. If the farmers do not pay loans on time or stipulated deadline, they should pay the fine and the fine is added to the principal amount of the loan if they do not pay until the end of fiscal year.

During FGD, the farmers said farm production sometimes is so low they struggle to repay loans on time. They are unhappy with the government's credit program including the loan facility of ADBL. A woman farmer said, “We are not asking that our principal and interest be waived but the problem is the compound interest. If the government really wants to increase agriculture production and improve the livelihood condition of farmers, it should create a farmer-friendly program and consult farmers during the design stage.”

As per a loan officer, the repayment rate of Gadhawa branch is 97 percent.

**Credit channels and program staffing**

In the case of ADBL, each branch's loan section serves as the main channels of credit. It has different types of loan and each type has separate sections. However, the ADBL does not have adequate staff to be responsible for each unit in Gadhawa. A single loan section functions as a window for multiple loans – agriculture loan, livestock loan, education loan, and, other small loans.

A staff in Gadhawa branch said that there is high demand of agriculture loan in the Gadhawa branch office. She said, “We cannot judge our performance and credit channels but I choose average rate for our credit channels and performance rate of credit.” Her statement is also proven by a farmer stating the ADBL can be rated
average in its performance. A female staff is responsible to provide loan to the farmers in Gadhawa branch of ADBL.

Under PMAMP, there are 10 (four females and six males) staff including the local facilitators. The PMAMP office also mobilizes agriculture students who have completed their formal education and are waiting to land jobs. As part of their On-the-Job Training (OJT), the local agricultural universities send their students out for field activities. PMAMP has only five permanent government staff. They are involved in field monitoring, office operation, and daily financial transaction of the businesses. The PMAMP team provides superior performance in their work but the farmers rated them as average.

Kushum Bhushal, agriculture officer of PMAMP said, “The farmers should submit a proposal to avail of the subsidy. As far as I am concerned, this is the greatest mistake of the PMAMP because many farmers cannot write their proposal and there should be alternatives to this.” She said the PMAMP Dang office has recommended to the MoALD for alternative procedures to claim grants or for the local government to fill up a form identifying the farmers who are interested in and eligible to get grants.

**Strengths of Prime Minister Agriculture Modernization Project**

Based on the KII and FGD with stakeholders and farmers, the following strengths of the government credit program were identified:

- ADBL credit and PMAMP grant support contribute to economic development of smallholder farmers (KII with ADBL staff);
- These programs have supported education and health facilities for children and household members (FGD with farmers);
- The PMAMP grant scheme has provided some agriculture tools such as tractors, harvesting machines, and water pumps for irrigation (FGD with farmers);
- These programs have helped to increase agricultural production (from modern seeds, fertilizers, and irrigation facility managed by PMAMP) (KII with PMAMP staff);
- The farmers can get loans at comparatively low interest rates for business farms operated by farmers (KII with farmers); and,
- The lands that previously remained barren for some years are now planted with several crops including maize in Gadhawa after the support of PMAMP (based on the interview with local government).

**Challenges of Prime Minister Agriculture Modernization Project**

Based on the KII and the FGD with farmers, the following challenges of the program have been identified:

- Landless and tenant peasants do not have access to the credit program, resulting in the widening of the gap between rich and poor farmers by creating double classes (FGD with farmers);
The big farmers who have business firms can avail of the interest rate subsidy through the ADBL but smallholder farmers end up paying the full interest rates from 10 to 12 percent (FGD with farmers);

ADBL’s penalty charge which leads to compound interest in the case of poor farmers has added pressure for the smallholder farmers during the COVID-19 pandemic (FGD with farmers);

Taking out a loan from ADBL and availing of a grant from PMAMP both involve lengthy processes (FGD with farmers);

The ADBL and PMAMP both lack a monitoring mechanism (KII with ADBL);

Though loans were taken in the name of women, the decision-making process was still largely male-dominated (FGD with women farmers); and,

The ADBL reviews its policies every three months. Sudden policy changes, in particular to the interest rate, creates problems for the farmers in their amortization payment schedule.

Impact of the COVID-19 pandemic on the implementation of the credit assistance program

Nepal is experiencing the second wave of the COVID-19 pandemic and definitely, the first wave gave a glimpse into the financial difficulties that many had to go through. During the first wave, the farmers could not sell their produce in the market. This pandemic also led to a halt in loan availment from the ADBL due to fear and uncertainty.

During the pandemic, the ADBL did not charge any penalties for delayed payment as per the direction of Nepal National Bank. However, they should pay a bulk amount at some time. The government-mandated nationwide lockdown made it difficult to buy necessary seeds for vegetable farming and to sell produce downtown. It hampered the farmers’ daily sources of income, making them unable to repay their bank loans.

The COVID-19 pandemic also taught the importance of agriculture as it is the backbone of national development. The Government of Nepal allocated a total of NRs 34.80 billion (approximately USD 288 million) to the agriculture sector with NRs 8.10 billion (approximately USD 67 million) to PMAMP to encourage the Nepalese who were repatriated to get into organic agriculture business in fiscal year 2020/2021 (2077/78 BS).

Credit needs of smallholder farmers

The farmers in Gadhawa have been taking out agriculture loans for production and consumption. They borrow from the ADBL to increase their farm production, while the bank aims to attract them into modern agriculture including the use of modern agri-technology. Similarly, PMAMP provides grant for irrigation, investment in agriculture production, and best utilization of resources.

A study conducted by the Department of Agriculture in Nepal revealed that the farmers should invest NRs 73,860 (USD 631) per hectare in Nepal. The study was
based on information from 57 districts of Nepal (Bhandari et al., 2015). However, the PMAMP claimed that they have provided fifty percent of total cost through their grant scheme whereas the ADBL does not have any study and monitoring to evaluate the investment and profit of the farmers. According to the farmers, they have managed the cost from ADBL and PMAMP but this not sufficient. The farmers do not count cost of labor (because they work from morning to evening to reduce the cost of production).

In terms of trade and working capital, some farmers have been taking out loans from one of the seven already established agri-firms.

The farmers in Gadhawa similarly need support on agricultural extension. Land productivity has decreased due to new types of insects and the excessive use of chemicals in Gadhawa. Some farmers do not have adequate information on how to use the chemicals, while others do not have any option to get rid of insects infesting their crops. New types of insects such as Fall Armyworm deprive farmers of harvests.

An old farmer in Gadhawa said, “We have informed policymakers and the project staff of PMAMP and ADBL about our problems, but they do not have adequate resources to address these. Now, we can’t harvest produce because of the Fall Armyworm and other wild animals. Now everybody is asking to control these problems. According to the local government, they have specific program to control Fall Armyworm, but we have some limitations to control these problems due to the lack of budget.”

The Government of Nepal through the local government has implemented a massive awareness program to control the problem of Fall Armyworm. It has designed a poster with detailed information of the worm and the prevention mechanism. According to the chairperson of Gadhawa Rural Municipality and Agriculture Officer of PMAMP, there is also a Junior Technical Assistant (JTA) who monitors the production daily in the field and informs them about the use of fertilizer, pesticides, and irrigation. He said, “There should be strong collaboration among public, private, and CSOs to address the problems of agriculture in Nepal. The local people also need to be sensitized to the use of chemical and pesticide. The productivity of the soil is decreasing day by day, so we have encouraged farmers to get into organic farming. However, the process of organic farming is lengthy and farmers do not want to invest in it.”

**Factors limiting access to credit for smallholder farmers**

A number of factors limit smallholder farmers’ access to agri-credit in Gadhawa.

- **Borrower eligibility requirements.** The requirement for smallholder farmers to submit formal tenure certificates deprive the landless and sharecroppers of access to credit from ADBL and PMAMP. In the same way, those who do not have citizenship certificates cannot access both programs. Some people born in Nepal are not eligible for citizenship certificates are deprived of access to government grant or credit.
Credit procedures and processing time – The smallholder farmers shared during FGD that the procedures for getting government credit is lengthy and it is difficult to get loans. The bank has no employees such as a Relation Manager to deal with smallholder farmers and handle concerns related to illiterate farmers who have no idea how to borrow from the ADBL. In comparison, getting a grant from PMAMP is easier. The PMAMP’s JTA assisted farmers in preparing their necessary credentials. It has also published a brochure on the procedures for getting a grant.

Credit requirements – Farmers need to register a business to get an agriculture loan from the ADBL at a low interest rate. Smallholder farmers, however, do not have the means to meet the requirements for low rates, so they end up borrowing at a highest interest rate.

Non-prioritization of women-farmers as beneficiaries of credit program – Although the land is registered in the name of women-farmers, the women have no say in how the money they borrow is spent or invested.

Non-prioritization or support to organic farming – The local governments have yet to find the means to help farmers gain a good understanding of organic farm production.

Special credit requirements of smallholder farmers due to the COVID-19 pandemic

The mobility restrictions brought about by the pandemic hamper the ability of smallholder farmers to sell their produce in the market. With their income drastically cut, farmers are unable to meet loan obligations. The farmers expected that interest would be waived during the lockdown, but this has not been the case and they have complained with the Nepal National Bank (NNB) on this matter. NNB thus encouraged all commercial banks including government financial institutions to waive the interest. None of the banks including ADBL did so. However, they decided not to take penalties for delayed loan payments during lockdown. Still, loan repayments continue to be a problem for farmers who have been deprived of their usual income sources.

The smallholder farmers are also expecting to receive a relief package especially for those who were not able to market their produce last year. For 2021, they have expected to sell their production in the market. The subsidy being provided by PMAMP is not applicable as it is calculated on the basis of the estimated amount of any project. For example, if PMAMP has estimated one hundred thousand for an irrigation project and the cost increases to two hundred thousand, PMAMP only provides fifty thousand rupees.

Conclusion and recommendations

There are some areas to reform for the sustainable agriculture credit and agriculture development at the local level that should be strong coordination among local, provincial and federal governments. After rigorous discussion with ADBL, PMAMP staff, representatives of local governments and other stakeholders the following recommendations are offered to the concerned stakeholders:
The current policy needs to be amended to include the landless and sharecroppers in the ADBL and the PMAMP credit and grant scheme of government. Alternative credentials such as citizenship, voter cards, etc. should be accepted as identification requirements in obtaining loan and grant support;

There are several laws, policies, and acts related to agriculture development and government’s credit program but the smallholder farmers and some representatives of local governments are unaware of them. The government should communicate the procedures and major policies of the credit program to all people concerned;

Agriculture development and credit scheme are responsibilities of the government at all levels – local, provincial, and federal. Policies and laws should be formulated and implemented by all levels of the government;

There is no integrated agriculture law for agriculture development. The government should legislate integrated agriculture with detailed analysis of the agriculture sector’s holistic development that is inclusive of smallholder farmers;

No policies for agricultural development mention gender equality in agri-credit and consent between men and women while taking credit from the ADBL and grant support from the PMAMP. A provision should be included to ensure equality between men and women;

The farmers are keen to get into organic farming but the government’s push has been weak. Without a strong research and development and reliable industry certification, consumers are slow to patronize organic farm products that are more expensive than conventional farm goods. Thus, the local governments should mobilize agriculture technicians to help in the adoption of organic farming;

There is insufficient coordination between the ADBL and the PMAMP for the distribution of agri-credit. The local government should establish a monitoring mechanism to monitor the credit and grant program;

The government should instruct the financial institutions to allow relaxed loan terms that allow farmers to pay the interest by installment;

The farmers spend huge amounts of money and time to take out loans because of the lengthy processes of the PMAP and the ADBL. The procedures should be made clear to the farmers. The loan processes should be expedited and loan disbursements should be allowed via ATM and mobile banking;

Support organic farming by: a) creating mass awareness through door to door program and other communication strategies; b) providing subsidy in loan for those who practice organic farming; c) developing a mechanism to differentiate organic and non-organic vegetables; and, d) establishing a market to sell organic products; and,

To cushion the impact of the COVID-19 pandemic: a) loan interest should be waived during the lockdown; b) half of the farmers’ loans should be converted into grants and government should repay the installment of COVID-19 pandemic; c) establish an emergency fund to use in difficult situation such as COVID-19 pandemic, flood and other disasters; d) separate contact persons to orient and assist smallholder farmers for the preparation of loan documents; e) provide assistance to enable farmers to purchase vegetable seeds and sell their produce in urban markets (which have been made difficult by the nationwide lockdown and government’s restrictions); and, f) provide a relief package, especially for those who were not able to market their produce in 2020.
Definition of Key Terms

Katha: A local dialects of Terai which denotes a piece of land. One Katha land covers 338.63 square meter area of land.

Ropani: 508 square meter area of land.

Terai: Southern plain area of Nepal.

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