

ACIAR SDIP Foresight Program: Status Report

# CREDIT IN EASTERN GANGETIC PLAINS:

Brief Assessment of Sources &  
Uses of Loans in Rural Areas

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## Highlights

- Only a small proportion of farm households in EGP have access to institutional credit.
- Larger landowners have better access to institutional finance.
- Farm households borrow money not only for agriculture but for many different reasons, including to meet basic household needs.
- Semi-formal institutions are important players in the rural credit market in Bangladesh and West Bengal, but not in Bihar and Nepal terai.
- In West Bengal, the rural credit market seems to be competitive and interest rates charged by the informal lenders are not as high as they are in other parts of the EGP.

Credit plays a vital role in agricultural development. It enables farmers to undertake new investments and adopt improved technologies. Indeed, access to credit enhances the risk-bearing ability of the farmers and allows them to invest in somewhat risky ventures with higher potential returns (Diagne et al., 2000). It also acts as a catalyst to break the vicious circle of poverty in rural areas (Coleman, 1999; Khandker and Faruquee, 2003; Awotide et al., 2015). Realizing the importance of credit in promoting agricultural growth and development, agricultural credit policies in South Asia have sought to expand the outreach of institutional credit by replacing traditional money lenders with formal institutions such as cooperatives, commercial banks, and rural development banks. However, in spite of several measures and initiatives taken by governments, the presence of informal agencies in rural credit continues to persist.

This report analyses the pattern of rural credit in Bangladesh, Eastern India (Bihar and West Bengal), and Nepal and highlights similarities and differences across the four regions. For Bangladesh and India, we use data from large primary surveys carried out by IFRPI while for Nepal, we use the Nepal Living Standards Survey (NLSS) data collected by the World Bank. The data were collected in the three countries in different points in time, and therefore, are not strictly comparable.

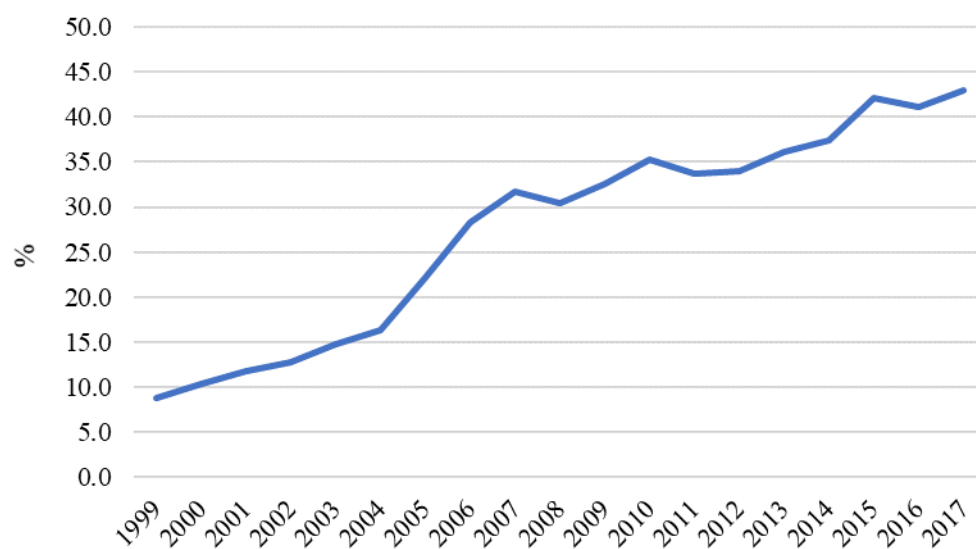
## India

The main objective of India's agricultural credit policy has been to improve farmers' access to institutional credit and reduce their dependence on informal credit. Informal credit is often usurious. In pursuit of this goal, the Government of India (GoI) has undertaken several initiatives. Major milestones in improving access to rural farm credit include acceptance of the Rural Credit Survey Committee's Report (1954), nationalization of the large commercial banks (1969 and 1980), establishment of Regional Rural Banks (1975) and the National Bank for Agriculture and Rural Development in 1982, and the 1991 financial sector reforms. Since the passage of historic 1991 financial reforms in India, the GoI also has launched farm credit programs including the Special Agricultural Credit Plan (1994-1995), the Kisan Credit Cards (1998-1999), the Doubling Agricultural Credit within three years (2004), the 2008 Agricultural Debt Waiver and Debt Relief Scheme and the Interest subvention Scheme (2010-11), and more recently, the 2014 Jan Dhan Yojana (Kumar et al., 2015).

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Simultaneously, several other measures have been taken to strengthen the formal credit system in India. Examples include the establishment of the Lead Bank Scheme, direct lending for the priority sectors, and the banking sector's linkage with the government-sponsored programs targeted at the poor. Other programs like the Differential Rate of Interest Scheme, the Service Area Approach, the Self-Help Group-Banks linkage program, Special Agricultural Credit Plans, and the Rural Infrastructure Development Fund were also introduced to enhance the flow of credit to the rural sector. These initiatives have had a positive impact on the flow of agricultural credit (Ghosh, 2005; Golait, 2007; Kumar et al., 2010; Mohan, 2006; Hoda and Terway, 2015; Kumar et al., 2015). Since the launch of Doubling Agricultural Credit in 2004, the actual credit flow has exceeded the target consistently, and the ratio of agricultural credit to agricultural GDP has increased from 10 percent in 1999-2000 to about 43 percent in 2016-2017 (Figure 1).



**FIGURE 1 SHARE OF FORMAL CREDIT IN AGRICULTURAL GDP (AgGDP) (%)**

SOURCE: NATIONAL ACCOUNTS STATISTICS (2019), MINISTRY OF STATISTICS AND PROGRAMME IMPLEMENTATION, GOVERNMENT OF INDIA.

However, the informal credit, which is often exploitative, still persists and its persistence in spite of vigorous efforts to promote financial inclusion is puzzling. The persistence of informal credit<sup>1</sup> has serious implications and raises many questions on the functioning of institutional credit mechanism.

## Characteristics of agricultural credit markets in Bihar and West Bengal ■■■

This section is based on the analysis of data collected from a representative sample of rural households in Bihar and West Bengal in 2018-19. India has a vast network of financial institutions, and both formal and informal financial systems operate in the rural credit market. A large number of formal and informal agencies lend money to farmers for their short- and long-term needs. The formal agencies include

<sup>1</sup> Private moneylenders, large landowners, traders, relatives and friends, etc. constitute the informal or non-institutional sources of credit.

Cooperatives, Regional Rural Banks, Scheduled Commercial Banks, and other government agencies. Self-help groups (SGH), microfinance institutions, and private finance companies constitute the semi-formal agencies. The informal sources comprise money lenders, friends, relatives, traders/shopkeepers, employers, and others.

**TABLE 1 DISTRIBUTION OF HOUSEHOLDS BY TYPE OF LOAN (%)**

Type of loan	Bihar	West Bengal
<b>All households</b>		
No Loan	49.1	61.9
Formal	16.3	15.3
Semi-formal	10.4	20.2
Informal	30.8	3.5
<b>Borrowing households</b>		
Formal	32.1	40.0
Semi-formal	20.3	53.1
Informal	60.4	9.1

*Note:* The above share does not add up to 100 due to multiple responses.

*Source:* IFPRI-ICAR Credit Survey (2018-19)

The pattern of borrowing by agricultural households is shown in **Table 1**. Agricultural households are grouped into four categories: non-borrowers, borrowers in the informal sector, borrowers in the formal sector, and borrowers in the semi-formal sector. About half of the agricultural households in Bihar (49.1%) and 62% in West Bengal have not borrowed any money in 2018. However, non-borrowing by agricultural households may not have been voluntary as many of them might not meet the requirements for borrowing money. Further, a positive relationship between the incidence of borrowing and land size indicates the involuntary exclusion of agricultural households from the rural credit market. Nonetheless, among borrowing households in Bihar 32% of agricultural households borrowed money from formal sources, 20% borrowed from semi-formal sources, and as high as 60% borrowed from the informal sources. In West Bengal, 40% of the borrowing households borrow from formal sources, 53% from semi-formal sources and the remaining 9% from the informal sources.

Access to formal credit is not scale-neutral in spite of several measures to promote financial inclusion in India. Large segments of agricultural households still remain outside the formal credit system. Poor families are often excluded from formal credit markets because they lack collateral or guarantors (Ray, 1998; Shoji et al., 2012). The relationship between land size and access to formal credit is positive. Agricultural households with better resources find their access to formal credit systems relatively easier compared to households with fewer resources.

**TABLE 2 DISTRIBUTION OF HOUSEHOLDS BY OPERATIONAL HOLDING (%)**

Farm size class	Share of HH	No Loan	Formal	Semi-formal	Informal
<b>Bihar</b>					
Marginal	68.1	71.6	45.3	79.8	67.0
Small	20.9	18.8	30.2	17.4	23.5
Medium & Large	11.0	9.7	24.4	2.8	9.6
All	100.0	100.0	100.0	100.0	100.0
<b>West Bengal</b>					
Marginal	47.4	52.7	25.5	55.5	20.0
Small	35.9	32.7	41.8	34.9	48.0
Medium & Large	16.7	14.6	32.7	9.6	32.0
All	100.0	100.0	100.0	100.0	100.0

Source: IFPRI-ICAR Credit Survey (2018-19)

Medium and large farms, which total about 11% of agricultural households in Bihar, account for about 24% of agricultural households that borrow from formal sources (**Table 2**). In contrast, marginal households, which make up 68% of farm households, account for 45% of the borrowing households from formal sources and their share of total formal credit is only 17%. However, a reverse scenario is found when it comes to informal credit. For instance, marginal farmers comprise 67% of the agricultural households that borrow from informal sources, and their share of total informal credit is about 24%. Large farms, on the other hand, only account for about 9.6% of households borrowing informally and their share of total informal credit is about 18%. Access to institutional credit increases as land size increases and credit from non-institutional sources decreases as land size increases. The similar relationship between access to credit and land size was observed in West Bengal also.

**TABLE 3 DISTRIBUTION OF LOAN SHARE (%)**

Different Channels	Bihar	West Bengal
<b>Formal Channel</b>	45.2	61.8
Public/Govt. bank	73.5	38.0
Private Bank	5.4	0.6
Regional Rural Bank (RRB)	20.0	7.6
Post-Office	0.4	0.2
Cooperative societies / banks	0.8	53.6
<b>Semi-formal Channel</b>	12.1	36.7
Self- help group	29.1	44.8
Micro Finance	52.2	55.2
Private finance company	18.7	0.0
<b>Informal Channel</b>	42.7	1.5
Friend or relative	26.2	17.3
Money lender	72.5	18.0
Agricultural Trader	0.3	58.5
Commission agent/Adhathiya	1.1	6.2

Source: IFPRI-ICAR Credit Survey (2018-19)

Formal sources account for 45% of the total borrowing amount in Bihar as compared to 62% in West Bengal. The semi-formal sources account for only 12% of the total borrowing in Bihar and informal sources comprise 43% of the total loan amount (Table 3). However, in West Bengal the semi-formal sources account for 37% of the loan amount and the informal sources comprise a negligible share of about 1.5% of the total borrowing.

## Rates of interest in Bihar and West Bengal

TABLE 4 RATE OF INTEREST IN BIHAR AND WEST BENGAL (%)

Different Channels	Bihar	West Bengal
<b>Formal Channel</b>	12.2	8.8
Public/Govt. bank	12.3	8.6
Private Bank	9.2	7.0
Regional Rural Bank (RRB)	13.0	13.8
Post-Office	7.0	7.0
Cooperative societies / banks	5.5	9.0
<b>Semi-formal Channel</b>	17.1	8.6
Self- help group	18.9	7.5
Micro Finance	18.8	9.6
Private finance company	13.6	0.0
<b>Informal Channel</b>	34.0	11.7
Friend or relative	26.3	7.7
Moneylender	46.6	24.3
Agricultural Trader	10.0	4.8
Commission agent/Adhathiya	54.0	12.0

Source: IFPRI-ICAR Credit Survey (2018-19)

The average interest rate charged by institutional agencies in Bihar was 12.2% per year and the semi-formal agencies charged 17%. In comparison, the average rate of interest charged by the informal agencies was 34. Moneylenders and commission agents charge annual interest rates as high as 47% and 54%, respectively. The interest rates charged by informal agencies in West Bengal is quite reasonable (11.7%).

## Purpose of the loan in Bihar and West Bengal

TABLE 5 PURPOSE OF THE LOAN IN BIHAR AND WEST BENGAL BY SOURCE (%)

Purpose of loan	Bihar			West Bengal		
	Formal	Semi-formal	Informal	Formal	Semi-formal	Informal
Capital expenditure in farm business	28.4	15.4	9.6	9.2	14.2	2.4
Current expenditure in farm business	42.0	27.3	14.5	80.1	22.2	87.0
Capital expenditure in non-farm business	7.9	17.9	0.4	0.7	7.2	0.2
Current expenditure in non-farm business	5.3	2.7	1.9	0.0	1.2	0.0
Repayment of debt	2.4	3.1	1.1	0.0	1.2	0.0
Household	13.9	33.7	72.5	10.0	53.9	10.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: IFPRI-ICAR Credit Survey (2018-19)

Households borrow money for multiple purposes such as farming and non-farming expenditures, household consumption expenditures, education, medical treatment, and other household expenses. **Table 5** sets out the frequencies of purpose for loan and analyze whether these vary according to the source. The most commonly cited reasons for taking loans in Bihar was for meeting household expenditure (44%). This was followed by the current expenditure in farm business (27%) and capital expenditure in farm business (17.9%). A small proportion also reported borrowing for capital (5.9%) and current expenditure (3.4%) in non-farm business.

In West Bengal, the most cited reasons for availing loan was for current expenditure in farm business (60%), followed by household expenditure (26.5%) and capital expenditure in farm business (9.4%). The remaining 4 percent was taken for other purposes.

The purpose of credit also varies according to the source of credit. For instance, in Bihar, about 73% of informal credit was taken to meet household expenses while only 14% of formal credit was used for household expenditure and 70% of the formal credit was taken for meeting farm business expenditure. Guerin et al. (2013) in rural southern India observed that the majority of loan was taken for investment, upgrading housing or expanding livestock assets (30%), followed by household expenditure (21%) and then for ceremonial purposes (17%), health costs (13%) and education costs (10%).

## Constraints to formal loan in Bihar and West Bengal

**TABLE 6 FARMERS FACING CONSTRAINT IN ACCESS TO LOAN FROM BANK AND REASONS FOR CONSTRAINT IN BIHAR AND WEST BENGAL (%)**

Constraint faced and reasons	Bihar	West Bengal
% of farmers facing constraints in getting loans from banks (by farm size)		
Marginal	59.9	27.3
Small	27.9	50.0
Medium and Large	12.2	22.7
Total	100.0	100.0
Overall problem faced	37.0	6.2
Reasons for constraint		
Bank deliberately delayed	28.0	0.0
Bank was not transparent	32.4	6.1
Bank official demanded	45.6	6.1
Long paperwork	42.5	30.6
Any Other reason	0.3	0.0

**Note:** The figure may not add up to 100 due to multiple responses.

**Source:** IFPRI-ICAR Credit Survey (2018-19)

We also collected information on problems in access to formal credit. 37% of the formal borrowers reported problems in getting loans from the commercial banks in Bihar. In West Bengal, the situation seems to be better and only 6% of the borrowing households reported difficulties in getting a formal loan. However, in both the states, problems faced by the farmers in getting formal loans depicted inverse relationship with the farm size. Deliberate delays in the disbursement of loan, long paperwork, demand for bribes and opaque procedures are some of the common problems farmers face when borrowing money from banks.

## Bangladesh

### Characteristics of agricultural credit markets in Bangladesh

Bangladesh has a network of financial institutions primarily in the semi-formal sector comprising NGOs and micro-finance institutions. The formal financial system, that includes Bangladesh Krishi Bank and Rajshahi Krishi Development Bank, has a poor outreach in the rural credit market in the country. Besides the semi-formal sources, the informal sources, comprising money lenders, shopkeepers, friends, relatives, neighbors, and others, mainly fulfill the borrowing requirements in Bangladesh.



**TABLE 7 DISTRIBUTION OF HOUSEHOLDS BY TYPE OF LOAN IN BANGLADESH DURING 2011-12 AND 2015-16 (%)**

Type of loan	2011-12	2015-16
<b>All households</b>		
No Loan	35.0	30.2
Formal	18.0	11.9
Semi-formal	28.8	36.2
Informal	24.9	26.7
<b>Borrowing households</b>		
Formal	27.6	17.0
Semi-formal	44.2	51.9
Informal	38.2	38.3

*Note: The above share does not add up to 100 due to multiple responses.*

*Source: Bangladesh Integrated Household Survey (BIHS) dataset (2011-12 and 2015-16)*

The pattern of borrowing by agricultural households in Bangladesh is shown in **Table 7**. The share of non-borrowers declined to 30.2% in 2015-16 as compared to 35% in 2011-12. The share of borrowers from semi-formal sector among all households increased to 36.2% in 2015-16 from 28.8% in 2011-12; however, the share of formal sector borrowers among all households declined from 18% to 11.9%, during the same period. Among borrowing households, 51.9% borrowed from the semi-formal sources while 38.3% borrowed from informal sources in 2015-16. The share of the formal sector among borrowing households declined from 27.6% in 2011-12 to 17% in 2015-16.

**TABLE 8 DISTRIBUTION OF HOUSEHOLDS BY OPERATIONAL HOLDING IN BANGLADESH IN 2011-12 AND 2015-16**

Farm size class	Share of HH	No Loan	Formal	Semi-formal	Informal
<b>2011-12</b>					
Marginal	94.3	95.2	90.4	95.4	93.8
Small	4.8	3.9	8.0	4.0	5.2
Medium & Large	0.9	1.0	1.6	0.6	1.0
All	100.0	100.0	100.0	100.0	100.0
<b>2015-16</b>					
Marginal	94.8	95.7	91.1	95.8	94.6
Small	4.3	3.3	6.9	3.4	4.7
Medium & Large	1.0	1.1	2.0	0.7	0.7
All	100.0	100.0	100.0	100.0	100.0

*Source: Bangladesh Integrated Household Survey (BIHS) dataset (2011-12 and 2015-16)*

**Table 8** shows that 94.8% of households belonged to the marginal farm size class in Bangladesh in 2015-16. 95.7% of the non-borrowers are marginal farmers. Further, the marginal farmers constitute over 90% of borrowers from formal, semi-formal and informal sources.

**TABLE 9 DISTRIBUTION OF LOAN SHARE IN BANGLADESH (%)**

Different Channels	2011-12	2015-16
<b>Formal Channel</b>	7.8	7.5
Bangladesh Krishi Bank	89.6	67.6
Rajshahi Krishi development Bank	7.6	2.8
Other Banks	2.9	29.6
<b>Semi-formal Channel</b>	33.9	37.8
NGO	56.8	65.7
Other financial institution	43.2	34.3
<b>Informal Channel</b>	58.3	54.6
Relative/friend/neighbour	79.3	54.3
Shopkeeper / Money lender	20.7	42.6
Other	0.0	3.1

*Source: Bangladesh Integrated Household Survey (BIHS) dataset (2011-12 and 2015-16)*

In terms of the extent of loan, the informal sector in Bangladesh dominates with 54.6% of the total borrowed amount, followed by semi-formal sector (37.8%), during 2015-16; the formal sources account for a meager 7.5% of the total borrowing amount.

## Rates of interest in Bangladesh

The persistence of informal credit in the rural area is attributed to several factors which include minimal formalities, fast disbursement, geographical and personal proximity and flexible repayment structure. But several studies highlight about charging exorbitantly high interest rates by the non-institutional sources.

**TABLE 10 RATE OF INTEREST IN BANGLADESH (% PER ANNUM)**

Different Channels	2011-12	2015-16
<b>Formal Channel</b>	12.0	11.5
Bangladesh Krishi Bank	11.4	11.7
Rajshahi Krishi development Bank	11.1	11.2
Other Bank	13.5	11.7
<b>Semi-formal Channel</b>	14.5	15.9
NGO	16.9	19.6
Other financial institution	12.0	12.1
<b>Informal Channel</b>	13.5	11.6
Relative/friend/neighbour	6.9	3.9
Shopkeeper / Money lender	25.8	24.8
Other	7.7	6.1

*Source: Bangladesh Integrated Household Survey (BIHS) dataset (2011-12 and 2015-16)*

The average interest rate charged by institutional agencies in Bangladesh was 11.5% per year and the semi-formal agencies charged 15.9% in 2015-16. The average rate of interest charged by the informal agencies was 11.6%. In the informal channel, relatives, friends, and neighbors, charged a lower average annual rate of interest of 3.9%, while a higher rate of 24.8% was charged by the money lenders. The figures were similar in 2011-12. As compared to India, the informal credit market in Bangladesh seems to be more competitive.

## Purpose of the Loan in Bangladesh

**TABLE 11 PURPOSE OF THE LOAN IN BANGLADESH (%)**

Purpose of loan	2011-12			2015-16		
	Formal	Semi-formal	Informal	Formal	Semi-formal	Informal
Business enterprise	31.8	34.7	19.4	34.8	29.4	11.9
Agriculture Purpose	32.0	23.6	14.7	19.0	20.0	20.3
For medical treatment	2.7	3.8	8.8	3.6	3.6	8.7
Household	33.5	37.9	57.0	42.7	47.1	59.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

*Source: Bangladesh Integrated Household Survey (BIHS) dataset (2011-12 and 2015-16)*

**Table 11** shows different reasons for which rural households take loans from different sources. The most commonly cited reason for taking loans in Bangladesh was for meeting household expenditure, that ranged from 42.7% (for formal sector borrowers) to 59.2% (for informal sector borrowers) in 2015-16. That was followed by the expenditure in business enterprise and farming. The share of households taking a loan for household purposes increased across formal, semi-formal and informal borrowing sources during 2015-16 than in 2011-12.

Surprisingly, the incidence of borrowing money for agriculture in Bangladesh declined between 2011-12 and 2015-16 except the informal borrowing. 32% of formal borrowing was done to meet the credit needs of agriculture in 2011-12, which dwindled to 19% in 2015-16.

## Constraints to Formal Loan in Bangladesh

TABLE 12 FARMERS FACING CONSTRAINT IN ACCESS TO LOAN FROM BANK AND REASONS FOR CONSTRAINT IN BANGLADESH IN 2015-16 (%)

Constraint faced and reasons	(%)
% of farmers facing constraints in getting loans from banks (by farm size)	
Marginal	98.7
Medium and Large	1.3
Total	100.0
Overall problem faced	1.3
Reasons for constraint	
Did not have collateral	10.7
Didn't have enough savings to qualify for the loan	2.8
Don't know	2.6
Applied for and received the loan (repaid)	82.2
Others	1.8

**Note:** The figure may not add up to 100 due to multiple responses.

**Source:** Bangladesh Integrated Household Survey (BIHS) dataset (2011-12 and 2015-16)

We have also solicited information on problems in access to formal credit in Bangladesh. 1.3% of the formal borrowers that comprise 98.7% of the marginal farmers reported problems in getting loans from the banks. Farmers cited the already received loan from a bank as a major constraint in getting a fresh loan from the bank, besides lack of collateral.

## Nepal

### Characteristics of agricultural credit markets in Nepal

Nepal has a strong network of financial institutions, and both formal and informal financial systems operate in the rural credit market to lend money to farmers for their short- and long-term needs. The key formal sources of borrowing in Nepal include the Agricultural Development Bank Limited and various commercial banks. The semi-formal lenders mainly comprise of the savings and credit cooperatives and financial intermediary non-governmental organizations (NGOs). The informal sources comprise money lenders, friends, relatives, shopkeepers, employers, and others.

**TABLE 13 DISTRIBUTION OF HOUSEHOLDS BY TYPE OF LOAN (%)**

Type of loan	1995-96	2003-04	2010-11
All households			
No Loan	38.7	31.2	35.0
Formal	11.4	10.4	5.5
Semi-formal	24.9	7.3	19.7
Informal	36.2	59.5	48.2
Borrowing households			
Formal	18.6	15.0	8.4
Semi-formal	40.6	10.5	30.3
Informal	58.9	86.5	74.1

*Note: The above share does not add up to 100 due to multiple responses.*

*Source: Nepal Living Standards Survey (1995-96, 2003-04, and 2010-11), Central Bureau of Statistics, Government of Nepal*

The pattern of borrowing by agricultural households in Nepal is shown in **Table 13**. 35% of households in Nepal have not taken a loan from any source in 2010-11. The share of non-borrowers in Nepal has fluctuated between 31.2% and 38.7% during 1995-96 to 2010-11. Further, among borrowing households, the primary source of loan is the informal sector (74.1%), followed by the semi-formal sector (30.3%), during 2010-11; only 8.4% of the borrowing households have taken loan from the formal sources which indicate weak access to credit from banks. Also, there is a declining pattern of borrowing from the formal sources during 1995-96 to 2010-11 in Nepal.

**TABLE 14 DISTRIBUTION OF HOUSEHOLDS BY OPERATIONAL HOLDING (%)**

Farm size class	Share of HH	No Loan	Formal	Semi-formal	Informal
<b>1995-96</b>					
Marginal	73.5	71.3	63.1	76.8	52.2
Small	16.9	17.4	18.4	15.7	3.3
Medium & Large	9.6	11.2	18.5	7.5	44.4
All	100.0	100.0	100.0	100.0	100.0
<b>2003-04</b>					
Marginal	76.2	73.9	61.9	73.9	79.0
Small	16.4	16.4	21.3	20.3	15.7
Medium & Large	7.4	9.6	16.8	5.8	5.3
All	100.0	100.0	100.0	100.0	100.0
<b>2010-11</b>					
Marginal	81.2	79.6	64.6	83.2	83.4
Small	13.9	15.0	19.3	13.2	12.7
Medium & Large	4.9	5.4	16.1	3.6	3.9
All	100.0	32.5	6.1	18.7	51.9

*Source: Nepal Living Standards Survey (1995-96, 2003-04, and 2010-11), Central Bureau of Statistics, Government of Nepal*

**Table 14** shows that medium and large farmers--4.9% of the total agricultural households in Nepal—accounted for 16.1% of agricultural households that borrow from formal sources, in 2010-11 while marginal households, that constitute 81.2% of the farm households, account for 64.6% of the borrowing households from formal sources (2010-11). 83.4% of the households borrowing from informal sources belong to the marginal farm size class. Furthermore, the share of medium and large farmers in borrowers from informal sector indicates a declining trend from 44.4% in 1995-96 to 3.9% in 2010-11.

**TABLE 15 DISTRIBUTION OF LOAN SHARE (%)**

Different Channels	% loan share		
	1995-96	2003-04	2010-11
<b>Formal Channel</b>	27.6	35.8	18.7
Agri. Dev. Bank	62.1	61.0	39.1
Commercial bank	37.9	39.0	60.9
<b>Semi-formal Channel</b>	4.0	12.2	38.8
NGO or relief agency	4.1	9.8	7.5
Grameen-type bank	23.0	27.5	5.3
Other financial institution	72.9	62.7	87.1
<b>Informal Channel</b>	68.4	51.9	42.5
Relatives/friends	56.9	75.0	66.9
Landlord/employer	2.2	1.3	0.9
Shopkeeper / Money lender	37.0	22.1	19.0
Other	3.8	1.6	13.2

*Source: Nepal Living Standards Survey (1995-96, 2003-04, and 2010-11), Central Bureau of Statistics, Government of Nepal*

Formal sources account for 18.7% of the total borrowing amount in Nepal in 2010-11, which is less than what it was 2003-04 (35.8%). However, the share of semi-formal sources in the total loan has increased briskly over the years from 4% in 1995-96 to 38.8% in 2010-11 in Nepal and the share of the informal sector in total loan amount has gradually declined over the years (**Table 15**).

## Rates of interest in Nepal ■■■

TABLE 16 RATES OF INTEREST IN NEPAL (%)

Different Channels	Rate of Interest		
	1995-96	2003-04	2010-11
<b>Formal Channel</b>			
Agri. Dev. Bank	17.7	16.1	13.7
Commercial bank	17.3	17.4	13.9
	18.1	14.8	13.4
<b>Semi-formal Channel</b>	17.5	18.5	17.6
NGO or relief agency	19.2	19.8	18.3
Grameen-type bank	16.1	17.9	17.1
Other financial institution	17.3	17.8	17.4
<b>Informal Channel</b>	28.9	29.4	25.3
Relatives/friends	29.4	28.9	24.5
Landlord/employer	34.7	33.9	32.2
Shopkeeper / Money lender	27.0	28.9	25.9
Other	24.5	25.7	18.6

Source: Nepal Living Standards Survey (1995-96, 2003-04, and 2010-11), Central Bureau of Statistics, Government of Nepal

The average interest rate charged by the institutional agencies in Nepal was 13.7% per year and the semi-formal agencies charged 17.6%, during 2010-11. The average rate of interest of 25.3% per year charged by the informal agencies was quite high. Nominal interest rates across all sources were lower in 2010-11 compared to 2003-04.

## Purpose of loans in Nepal

TABLE 17 PURPOSE OF LOANS (SHARE FROM OUTSTANDING LOAN) (%)

Purpose of Loan	1995-96			2003-04			2010-11		
	Formal	Semi-formal	Infor mal	Formal	Semi-formal	Infor mal	Formal	Semi-formal	Infor mal
Purchase of inputs	2.4	3.2	2.0	27.9	1.2	1.6	1.2	0.3	1.9
Purchase of equipment	30.3	6.6	3.2	19.1	2.5	14.9	12.5	2.9	6.4
Purchase of land	3.6	15.7	12.2	4.0	18.2	10.4	3.3	5.8	14.4
Purchase of livestock	4.3	6.1	3.8	1.6	2.9	3.4	0.8	0.3	2.3
Building improvements for business	30.0	24.4	17.5	8.9	20.6	16.6	43.5	76.2	21.9
Other business or farm use	8.6	11.4	17.8	16.0	14.9	14.6	6.5	2.6	9.8
Household consumption needs	2.0	4.1	4.0	2.2	2.0	3.4	1.5	0.4	3.1
Purchase/improvement of dwelling	4.9	10.0	17.3	6.1	18.8	12.4	5.4	4.3	11.5
Marriage/family events	4.8	9.9	6.9	6.0	5.8	6.0	2.7	0.6	6.1
Consumer durables	3.5	3.2	9.4	5.2	6.6	8.7	4.7	2.2	6.8
Other personal	5.5	5.4	5.9	3.1	6.5	8.2	18.0	4.3	15.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Nepal Living Standards Survey (1995-96, 2003-04, and 2010-11), Central Bureau of Statistics, Government of Nepal

Loans are taken for multiple purposes in Nepal such as purchases of agricultural inputs, equipment, land, and livestock; building improvements for business; and household expenditures.

Table 17 shows the frequencies of purpose for loan and analyze whether these vary according to the source. The most commonly cited reasons for taking loans in Nepal was related to building improvements for business, that ranged from 21.9% for informal sources to 76.2% for semi-formal sources, in 2010-11.



## Constraints to formal loans in Nepal ■■■

TABLE 18 CONSTRAINT IN ACCESS TO FORMAL LOAN: NUMBER OF DAYS TAKEN TO OBTAIN A LOAN BY FARMERS

Farm size class	1995-96	2003-04	2010-11
Marginal	13.8	8.1	7.8
Small	15.9	12.0	8.9
Medium & Large	16.0	12.2	13.1
All	14.2	9.1	9.1

Source: Nepal Living Standards Survey (1995-96, 2003-04, and 2010-11), Central Bureau of Statistics, Government of Nepal

Table 18 depicts constraint in access to loans in terms of average number of days taken in getting loan by farmers. On average, it took 9 days for farmers to get a loan in Nepal in 2010-11. Marginal farmers seem to get loans faster than small, medium and large farmers. The number days required for getting loan has decreased between 1995-96 and 2010-11.

## Conclusion

The experience of farmers in the region, the majority of whom are smallholders, suggests that the extent of financial inclusion varies greatly and only a small proportion of agricultural households are able to avail institutional credit. The reasons agricultural households borrow money are not singular and straight forward. Borrowing occurs for a diversity of reasons, and for a significant proportion of households, loans are taken to meet the basic needs of households. The functioning of the rural credit market depicted a stark variation across different countries in the EGP region including interest rates, constraints to borrowing and the purpose of borrowing. Even within counties these differences are apparent. For example, in West Bengal, the credit market seems to be functioning well and the interest rates charged by the informal lenders are also lower compared to Bihar.

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## Foresight for Food Systems Status Reports

The Foresight for Food Systems in the Eastern Gangetic Plains (EGP) is a project led by IFPRI that seeks to lay down the groundwork for an open, scientifically informed and participatory foresight for food exercise in the EGP region led by regional scientists and engaging with other stakeholders like policy-makers, private investors, and farmers. A set of status reports on different components of the food system for better understanding of the current status, future challenges, research and knowledge gaps has been prepared for informed policy making for a sustainable future. The status reports will provide inputs into foresight and scenario building exercises in the region.

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SDIP initiatives aim to build technical capacity, share and generate knowledge, facilitate transboundary dialogue and mobilise the private sector and civil society in support of this objective. The focus area for SDIP initiatives is the three Himalayan river basins – the Indus, Ganges and Brahmaputra – which cover parts of India, Pakistan, Bhutan, Nepal and Bangladesh.

SDIP is a 12-year strategy (2012-2024), recognising that many of the critical interventions required for improving the integrated management of water, food and energy at the river basin level require sustained engagement to build regional cooperation and capacity over time. The Australian Centre for International Agricultural Research (ACIAR) is one of seven partners in SDIP. ACIAR SDIP funds research and development activities that improve agriculture's contribution to sustainable food systems. **For further information on the project please visit <https://aciarsdip.com/component-2>**