

The Pest Called Credit Insecurity:

Case Studies on Agricultural Credit Programs for Smallholder Farmers in Five Asian Countries





Founded in 1979, the **Asian NGO Coalition for Agrarian Reform and Rural Development (ANGOC)** is a regional association of national and regional networks of civil society organizations (CSOs) in Asia actively engaged in promoting food sovereignty, land rights and agrarian reform, sustainable agriculture, participatory governance, and rural development. ANGOC member networks and partners work in 10 Asian countries together with some 3,000 CSOs and community-based organizations (CBOs). ANGOC actively engages in joint field programs and policy discussions with national governments, intergovernmental organizations (IGOs), and international financial institutions (IFIs).

ANGOC is a member of the Global Forum on Agricultural Research (GFAR), Global Land Tool Network (GLTN), Indigenous Peoples' and Community Conserved Areas and Territories (ICCA) Consortium, and the International Land Coalition (ILC).

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Land Watch Asia (LWA) is a regional campaign to ensure that access to land, agrarian reform and sustainable development for the rural poor are addressed in national and regional development agenda. The campaign involves civil society organizations in Bangladesh, Cambodia, India, Indonesia, Kyrgyzstan, Nepal, Pakistan, and the Philippines. LWA aims to take stock of significant changes in the policy and legal environments; undertake strategic national and regional advocacy activities on access to land; jointly develop approaches and tools; and, encourage the sharing of experiences on coalition-building and actions on land rights issues. LWA is convened by ANGOC.

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November 2021

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Project Partners



Association for Land Reform and Development (ALRD) was established in January 1991 as single-focused rights based national networking organization, mandated to facilitate the land and agrarian reform advocacy, mobilization and capacity building of its partners and allies in enabling access to and control over natural resources of the poor, landless and marginalized communities in Bangladesh. In the subsequent decades, ALRD emerged as a professionally trained knowledge network in the land sector to amplify the collective voice of the marginalized communities in Bangladesh.

Currently, ALRD has a network of 200+ NGOs and civil society organizations all across the country.

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Association of Voluntary Agencies for Rural Development (AVARD) is a well-known open, secular, non-political, non-profit national association (network) of 328 autonomous voluntary agencies engaged in rural development throughout India.

Founded in 1958 by a group of freedom fighters and eminent national leaders who had renounced power/electoral politics, AVARD has been promoting people's action to rebuild India during the post-independence period.

"Quest for *Swaraj* (Self-rule)" aptly reflects AVARD's pursuit of voluntary action and *gram swaraj* since the former is the manifestation of human quest for *Swaraj* just as *Gram Swaraj* implies village community's quest for self-rule.

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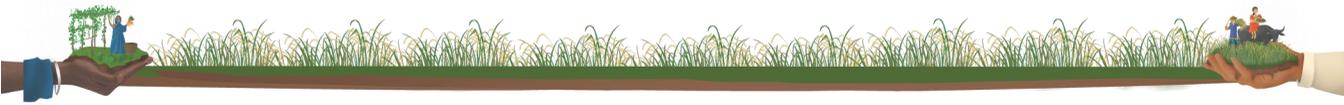
Bina Desa is a Non-Governmental Organization (NGO) in the field of rural human resource empowerment. Established on 20 June 1975, Bina Desa focused on community empowerment by implementing community-based organizing and empowering the rural people rights issues, including land rights, food and agriculture-fisheries, natural farming, and gender justice.

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Community Self Reliance Centre (CSRC) has been at the forefront of land and agrarian rights campaign in Nepal. CSRC educates, organizes, and empowers people deprived of their basic rights to land to lead free, secure, and dignified lives. The organization's programs focus on strengthening community organizations, developing human rights defenders, improving livelihoods, and promoting land and agrarian reform among land-poor farmers. Since its establishment, CSRC has constantly worked to transform discriminatory and unjust social relations by organizing landless, land poor and marginalized communities to claim and exercise their rights.

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Foreword

Smallholders who feed the world are among the poorest and most food-insecure subpopulations. Smallholder farming in Asia is still generally seen as an unattractive trade, with high risks and low financial returns. For this reason, Asian youth are discouraged to venture into agriculture, as evidenced by the ageing farming population in Asia.

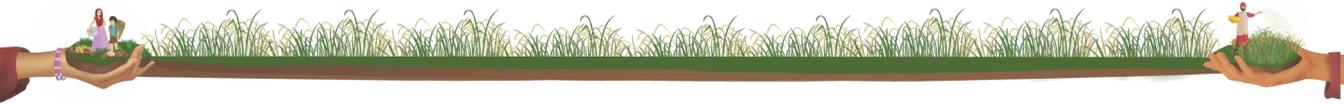
Formal credit programs aiming to encourage farmers' investment in crops, technology, and enterprise are available, but are not always accessible. The costs associated with formal borrowing may be too high, payment schemes may be inflexible, or application procedures may be too complex and bureaucratic. In many instances, smallholders are not even aware of available government lending programs. In other cases, farmers who do not have their own land are excluded from these facilities because these farmers are not able to provide loan collateral. These factors lead many smallholders to resort to informal borrowing, which may be more convenient but come with very high interest rates and may be facilitated by abusive loan sharks. Furthermore, available credit programs also do not meet the wider range of needs of farming households, including their households' intermediary needs between the planting and harvesting seasons.

Credit schemes must be able to address the unique risks brought on by increasing trade liberalization and larger roles for agribusinesses, climate change and extreme weather events, other sudden shocks such as pandemics, and migration between rural and urban populations.

Thus, with the context above in mind, ANGO and the Land Watch Asia (LWA) campaign, conducted case studies on agricultural finance in Bangladesh, India, Indonesia, Nepal, and the Philippines, enriched by focus group discussions with farmers and CSOs as well as dialogues with relevant government agencies, towards the following objectives:

- Analyze the relevance, accessibility, and usefulness of available channels for smallholder farmers to access public agricultural finance beyond loans for agricultural inputs in five countries in Asia; and,
- Propose recommendations to government lending institutions to improve smallholder's access to and utilization of credit.

Summaries of the case studies were presented and discussed in an online regional learning event. Among the identified areas of enhancement include: a) enhancing the effectiveness of the public credit programs, b) incorporating gender-related concerns and support for the adoption of organic farming, and, c) additional measures to enable farmers to cope with the COVID-19 pandemic.



These studies were supported by Fair Finance Asia, through IDEALS and the FFP coalition.

ANGOC deeply thanks the following writers, researchers, and contributors who carefully crafted, refined, and finalized the country case studies: Rowshan Jahan Moni, Ajmira Binte Zaman, Gazi Mohammad Suhrawardy, and Md. Waliul Islam from Bangladesh; Dr. Bisheshwar Mishra, Dr. Pyare Lal, Dr. Sada Nand Rai from India; Abella Diandra, Lugita Nurhajar, Dameria Rosalin Situmorang, Ainia Prihantini, Heppi Hestiana D.K., and Fandi Muhammad from Indonesia; Jagat Basnet and Binod Gautam from Nepal; and, Gregorio Quitangon, Raul Gonzalez, and Marianne Jane Naungayan from the Philippines.

The analyses contained in the cases were guided by the rich experiences of farmer-communities from Dinajpur and Fardipur in Bangladesh; partner-farmer organizations of AVARD throughout India; farmer-organizations from Karanganyar in Indonesia, District Land Rights Forum (DLRF) of Dang District and members of various cooperatives in Gadhawa in Nepal; and, the following farmers' organizations from the Philippines: Guim-o Layan Agrarian Reform Cooperative, Katilingban sang Agraryo Padulong sa Pag-uswag sang Iloilo Agrarian Reform Cooperative (KASAPPI), Ormoc Kananga Leyte Farmers Federation (ORKALEFF), and Salvacion United Farmers Association (SUFA), through the facilitation of the Center for Agrarian Reform and Rural Development (CARRD) and Kaisahan tungo Sa Kaunlaran ng Kanayunan at Repormang Pansakahan, Inc. (Kaisahan).

ANGOC and LWA are also grateful to representatives from the following local government units, banks, and government agencies, who deepened the researchers' understanding about agricultural credit for small farmers: from Indonesia, the Department of Agriculture in Central Java and Karanganyar District (Dinas Pertanian Provinsi Jawa Tengah dan Kabupaten Karanganyar), Department of Cooperatives and SMEs of Karanganyar District (Dinas Kop-UMKM Karanganyar), Department of Integrated Investment and Licensing Service of Karanganyar District (DPMPTSP Karanganyar), village governments of Jatipuro and Jumapolo; BRI and KUR's Bank in Karanganyar; from Nepal, the Ministry of Agriculture and Livestock Development, the Ministry of Land Management, Cooperatives and Poverty Alleviation, the Gadhawa Rural Municipality, the Prime Minister Agriculture Modernization Project (PMAMP), the Agriculture Development Bank, Limited (ADBL), Gadhawa Branch of Dang District, and the Gadhawa Rural Municipality; and, from the Philippines, the Agricultural Credit Policy Council (ACPC), Department of Agrarian Reform (DAR), Department of Agriculture (DA), and the Department of Environment and Natural Resources (DENR).

Finally, our appreciation to Raul Gonzalez for weaving the case studies into a regional summary report.

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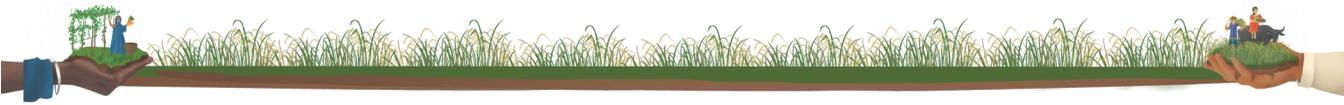
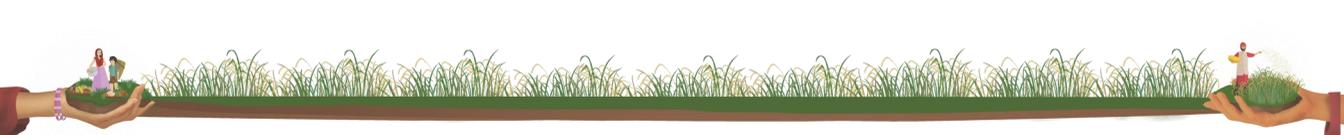


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Regional Summary of Case Studies on Public Agricultural Credit Programs in Five Asian Countries¹

Introduction to the research study

Context

Agriculture employs 1.3 billion people globally, of which, 97 percent are in developing countries. Of these, 450 million are smallholder farming households (Varangis, et al., 2018).

On a regional basis, developing countries have large populations engaged in agriculture as follows: 55 percent in Sub-Saharan Africa, 47 percent in South Asia, 39 percent in East Asia, 25 percent in North Africa, 21 percent in Central Asia, and 16 percent in Latin America/Caribbean (Varangis, et al., 2018).

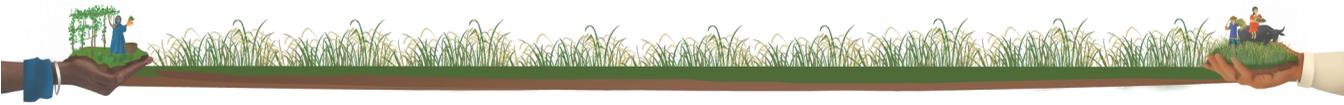
The provision of finance on an adequate and timely basis, which is essential for the development of agriculture, is expected to result in the following benefits: a) increasing production and income of farms and agricultural SMEs through access to better technologies and commercialization; b) increasing resilience [i.e., improved risk management capacity] through climate-smart production, risk diversification and access to financial tools [e.g. savings, insurance, contingent credit, etc.]; and, c) facilitating the transition of non-commercial farmers out of agriculture and the consolidation of farms, assets, and production [financing structural change] (Varangis, et al., 2018).

Some 75 percent of the world's farming households are located in Asia, most of whom are family farmers and small-scale producers (Varangis, et al., 2018).

Small farmers in the region contribute significantly to the world's supply of such key staples as rice, corn, root crops, and pulses. It is therefore ironic that these small agricultural producers are among the most food-insecure and poorest segments of Asian populations.

A major constraint to the productivity of smallholder farmers is their lack of access to sufficient agri-finance, i.e., credit programs to invest in crops, technology, or security amid risks and in the face of shocks (Gustafson, 2018). Though farm credit programs are available, these are risky due to their higher transaction costs,

¹ **Citation:** Gonzalez, R., Marquez, N., and Musni, D. (2021). *Regional Summary of Case Studies on Public Agricultural Credit Programs in Five Asian Countries*. In ANGOC (Ed.). *The Pest Called Credit Insecurity: Case Studies on Agricultural Credit Programs for Smallholder Farmers in Five Asian Countries*. (pages 5-37). Quezon City. ANGOC. [Paper prepared for the project "FFA-LWA Case Studies on Agricultural Production Credit Assistance for Selected Smallholders in Five Asian Countries"].



inflexibility of repayment schemes, low capital returns from agriculture, unpredictable environment, and market factors (JJCICSI, n.d.; Learning Lab and ISF Advisors, 2016).

While each case writer has adopted a definition of agricultural finance that seeks to capture the specific characteristics of her/his country, these have much in common. Across the five countries, agri-finance is simply: a) the provision of credit funds and services; b) in support of agricultural undertakings in the cropping, fisheries, livestock, and livelihood sectors; and, c) that usually include production, processing, storage, and marketing activities.

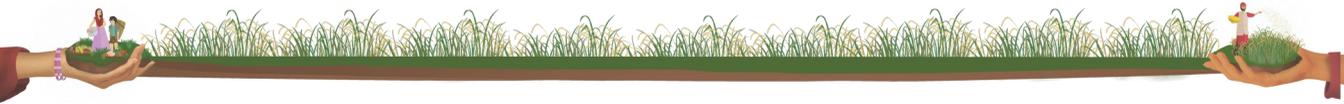
The vulnerabilities of smallholders have been exposed further during the ongoing COVID-19 pandemic: even as small producers remain at the frontlines of the outbreak, they continue to experience weakened purchasing power, livelihood insecurity and hunger due to the disruption of local and global food chains (ANGOC, et al.; FAO, 2020).

The above suggest that – despite numerous programs on agrarian reform, productivity, capacity building and attempts to raise farmer incomes – smallholder farming remains a risky endeavor. The economic unattractiveness of agriculture continues to deter the youth from engaging in the industry, as evidenced by a continually ageing farming population in Asia.

It is unfortunate that the unique risks of agricultural lending, as identified in a paper² of the Food and Agriculture Organization of the United Nations (FAO) over 20 years ago, remain true today:

- Agriculture remains a politically sensitive sector. Access to and distribution of credit is influenced by such socio-political issues as favoritism and dependency relationships to people in power, and gender imbalances that still favor men over women (JJCICSI, n.d.);
- Agricultural lending and borrowing continue to suffer from such specific risks as market and price fluctuations, uncertainties in yield, and international and domestic market policies;
- Agricultural lending incurs high financial transaction costs for both lenders and borrowers. For borrowers, opportunity costs (including lost working hours, transport fees, processing fees, bribes) may be discouraging;
- Due to the nature of the sector, agricultural lending involves seasonality that makes it more difficult to identify assets and liabilities, thus, driving up the prices of loans;
- Small farmers cannot easily provide loan collateral as some do not own land, while others face legal issues with their claims to ownership; and,
- Farming households are integrated units of production and consumption; thus, the ability of farmers' families to manage loans is variable with the result that loans are consumed for other needs of the household, (e.g., food, education, investment, among others).

² Agricultural Finance: Getting the Policies Right by Elizabeth Coffey (1998), published by FAO and GTZ



In many instances, existing credit programs do not meet the wide range of needs of farming households. A study published in 2016 pointed out that, across the world, most of the small, non-commercial farmers are not able to meet their credit needs, especially in relation to long-term finance. In fact, only one percent of South and Southeast Asian smallholders' needs for longer-term investments are met (Manganhele, 2010).

Farmers also do not have the needed insurance to support risky investments that may boost production; in South and Southeast Asia, for example, agri-insurance schemes support only 20 percent of smallholders. Most farmers also do not have formal savings nor use mobile money (Learning Lab and ISF Advisors, 2016).

Financial institutions, farmers organizations, and civil society organizations need to consider the impacts on agricultural finance of such pressing trends as: a) government-led agricultural transformation efforts that are liberalizing trade and pronouncing stronger production roles for large agribusinesses; b) climate change and extreme weather events that affect farmers' productivity and livelihoods; and, c) intensified rural-urban migration patterns that are pulling more people away from agricultural areas (Coffey, 1998).

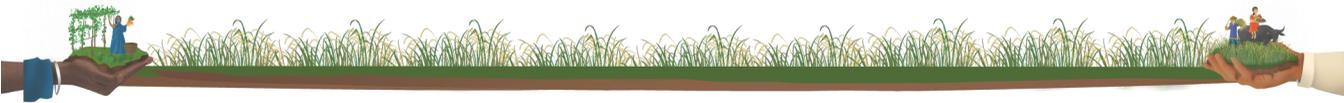
The United Nations Decade of Family Farming (UNDF³) has recognized the need to support family farming as a strategy towards rural poverty eradication in all its forms. As such, providing sufficient access to financial assistance will be crucial to meeting the goals of the UNDF.

Focus of the research, study objectives, and key questions

With the above context in mind, the Asian NGO Coalition for Agrarian Reform and Rural Development (ANGOC) and its partners through the Land Watch Asia (LWA) campaign, have conducted a five-country research effort that resulted in case studies on selected ongoing *public sector* agricultural credit programs for smallholder farmers in Bangladesh, India, Indonesia, Nepal, and, the Philippines. This regional summary is a consolidation of the five case studies.



³In December 2017, the United Nations General Assembly declared 2019 to 2028 as the Decade of Family Farming (UNDF), which would serve as a framework to develop public policies and investments to support family farming, and contribute to the achievement of the Sustainable Development Goals (SDGs), including rural poverty eradication in all its forms. The UNDF envisions... "A world where diverse, healthy and sustainable food and agricultural systems flourish, where resilient rural and urban communities enjoy a high quality of life in dignity, equity, free from hunger and poverty."



A Brief on the Bangladesh Case Study

The country study is directed at the Bangladesh government's production credit assistance for smallholder farmers involved in Boro paddy production during the rainy season. Sites of the study are the Northern, Central, and Southern districts of the country.

The study selected the crop loan credit program of the Bangladesh Krishi Bank (BKB), a specialized government bank, as it is the largest government credit program in the crop sector in terms of area, population, and portfolio coverage among all the actors in the crop financing sector.

In Fiscal Year 2020 to 2021, 55 banks were involved in the provision of agricultural loans in Bangladesh, seeking to provide a total target amount for loans of BDT 26,292 crores (USD 3.1 billion); in comparison, the loan disbursement target of BKB alone was BDT 6,000 crores (USD 711 million), or about 23 percent of the total.

Despite the study's focus on credit, ANGOB recognizes that there are other equally-critical factors to small farmers, including access to and control of land, seeds, and markets. These factors have been the subject of other studies and ongoing policy work of the ANGOB network and its partners in the region.

A Brief on the India Case Study

The Kisan Credit Card (KCC) government program seeks to provide adequate, convenient, and timely credit support to farmers at the lowest rate of interest from the banking system under a single window with flexible and simplified procedure for their cultivation and other needs.

The annual budget of the program is around INR 2 lakhs crore (approximately USD 22.957 billion) and covers farm credit, consumption, and farm assets maintenance. It can provide collateral-free loans of up to INR 160,000 (approximately USD 2,150).

This research effort has been undertaken in pursuit of two objectives, namely: a) to analyze the relevance, accessibility, and usefulness of available channels for smallholder farmers to access public credit assistance for their production requirements in the five Asian countries; and, b) to propose recommendations to government lending institutions to improve smallholder's access to and use of credit.

A Brief on the Indonesia Case Study

The study focuses on rural communities that are engaged in realizing self-reliance (Desa Swabina). The case involves the KUR (People's Business Credit) Program, one of the long-running agricultural credit programs of the Indonesian government. KUR aims to increase access for micro, small, and medium enterprises (MSME) to funding distributed by financial institutions under a guarantee scheme.

In 2021, the Indonesian government increased the KUR budget to IDR 70 trillion (USD 4.8 billion), a 40 percent increase from its allocation of IDR 50 trillion in 2020.

Overall, the research effort seeks to address three key questions, namely:

- What is the relevance of the chosen government production credit assistance program for smallholder farmers of the selected crops in the five countries? Specifically, does the credit program address the needs of their smallholder clients? Does it contribute to the holistic development of these smallholder

farmers? Is it proactive in targeting women smallholders and farmers who are practicing organic and sustainable farming?

- Is the chosen public agricultural credit program appropriate to the existing context of smallholder farmers (e.g., in terms of loan application procedures, interest rates, repayment schemes, strengths and challenges), particularly in the context of the COVID-19 pandemic?
- What recommendations are proposed to government lending institutions to improve smallholders' access to, and use of, these credit programs?

A Brief on the Nepal Case Study

The study focused on the credit scheme of the Agriculture Development Bank, Limited (ADBL) and the grant program of the Prime Minister Agriculture Modernization Project (PMAMP), a 10-year plan to modernize Nepali agriculture, specifically, to increase agricultural productivity. The Project, which has a total budget of NRs 13,074,200,000 (approximately USD 108.9 billion), started in 2016 and will run continuously until 2027.

ADBL provides credit to small farmers at an interest rate that is comparatively lower than other banks and microfinance institutions. The PMAMP provides grants for the purchase of agricultural machineries. Smallholder farmers have invested the loans and grants to purchase agriculture machineries, irrigation materials, and seeds. The loans have also been used for health, education, and personal well-being of farmer household members.

Research methodology

Table 1. Focal Organizations for the Case Studies

Country	Focal Organizations
Bangladesh	Association for Land Reform and Development (ALRD)
India	Association of Voluntary Agencies for Rural Development (AVARD)
Indonesia	Bina Desa
Nepal	Community Self Reliance Centre (CSRC)
Philippines	Asian NGO Coalition for Agrarian Reform and Rural Development (ANGOC)
Regional Summary	Asian NGO Coalition for Agrarian Reform and Rural Development (ANGOC)

Preparation of the country case studies involved the use of the following research methodologies: a) review of literature; b) key informant interviews [KIIs] with government officials; c) focus group discussions [FGDs] with farmers and CSOs to validate findings and generate recommendations; d) peer review of country case studies by the writers and ANGOC; and, e) in-country policy dialogue with relevant government agencies. The study was also supplemented by other related studies conducted by ANGOC and Land Watch Asia.

A Brief on the Philippine Case Study

The Philippine study is focused on the Agrarian Production Credit Program (APCP), a Php 2.5-billion (approximately USD 49.8 million) credit facility designed to meet the credit needs of agrarian reform beneficiaries (ARBs), including landless farmworkers, who are vulnerable to risks related to crop production, including climate change and the COVID-19 pandemic.

APCP adopts a whole-of-government support to provide clients with credit and other vital support services, such as, capacity building, linking farmer producer organizations to value chains, investments in rural infrastructure and communication, and extension services in relation to appropriate modern farming technologies.



At the country level, data gathering activities were limited mainly to online interactions due to COVID-19 restrictions on face-to-face meetings. In situations where restrictions were relaxed by governments, a mix of online and limited physical interaction through focus group discussions (FGDs) were undertaken by the country researchers.

Table 2. Listing of Country FGDs and KIIs Conducted

Country	Processes (Dates)	Male	Female	Total
Bangladesh	FGD with farmers - part 1 (18 March 2021)	5	3	8
	FGD with farmers - part 2 (22 June 2021)	6	4	10
	KII with Bank Official - part 1 (5 May 2021)	1	-	1
	KII with Bank Official - part 1 (18 May 2021)	1	-	1
India	Meeting with Executive Committee of AVARD (21 July 2021)	7	3	10
	Consultation with partner farmers (16 to 24 August 2021)	280	70	350
Indonesia	In-depth interview with Board of Ngudi Makmur Cooperative (26 July 2021)	2	-	2
	Group discussion with Board of Ngudi Makmur farmer coalition (05 August 2021)	3	-	3
	In-depth interview with Farmer Group Association (Gapoktan) in Jatipuro Sub district (12 August 2021)	4	-	4
	In-depth interview with Department of Agriculture (21 August 2021)	-	1	1
	In-depth interview with beneficiaries and Village Government (25 August 2021)	1	-	1
	In-depth interview with BRI unit (16 August 2021)	1	1	2
	In-depth interview with women beneficiaries KUR (31 August 2021)	-	1	1
	In-depth interview with Department of Agriculture (02 September 2021)	-	1	1
	In-depth interview with Department of Cooperatives and SMES/Disdagnakerkop-UKM (20 September 2021)	1	-	1
	FGD with Bank in Central Java as agricultural KUR distributor (23 September 2021)	4	4	8
Nepal	FGD with farmers (7 April 2021)	6	2	8
	FGD with farmers (8 April 2021)	5	4	9
	KII with farmers (9 and 10 April 2021)	4	3	7
	KII with government agencies including ADBL and PMAMP (10 April 2021)	1	2	3
	Validation workshop with government (30 July 2021)	14	12	26
Philippines	FGD with government (14 May 2021)	5	9	14
	FGD with farmers - part 1 (19 May 2021)	16	10	26
	FGD with farmers - part 2 (8 June 2021)	10	8	18
	Learning Workshop with government (13 August 2021)	9	14	23
TOTAL		386	152	538

At the regional level, monthly online meetings were held for updates on the progress of the studies and discussions on the major sections of the study papers. In effect, the meetings were peer-review sessions among the researchers to compare notes and seek clarifications. ANGOC has convened a total of seven meetings since March 2021.

Table 3. Peer Review through Online Regional Meetings

Date	Topic	Male	Female	Total
02 March 2021	Preparatory meeting of researchers in the five countries to finalize outline and overall work plan	12	6	18
30 March 2021	Regional meeting of writers to discuss Chapter 1	8	6	14
29 April 2021	Regional meetings of writers to discuss Chapters 2 and 3	7	6	13
24 May 2021	Regional meetings of writers to discuss Chapter 4	7	4	11
15 July 2021	Regional meeting of writers to discuss working drafts	7	4	11
19 October 2021	Regional meeting of writers to discuss the summary report	5	6	11
24 November 2021	Regional meeting of writers to finalize the summary report	5	6	11
Total		51	38	89

Overview of credit in the agricultural sector in the five countries

The agricultural sector in the five countries

The majority of the population in the five countries, at least 40 percent, remain dependent on agriculture. Among the five countries, it is Bangladesh that has the largest percentage of its land involved in agriculture at 70 percent, while Nepal has the smallest percentage at 29 percent.

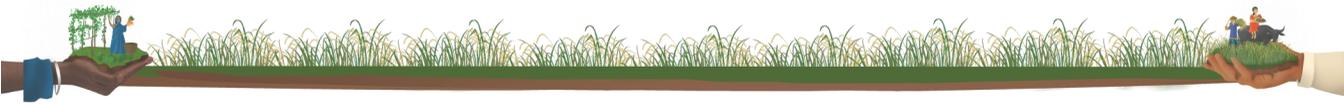
Curiously, however, 80 percent of Nepal's total population live in the rural areas, the largest percentage among the five countries. Not surprisingly, Nepal has the highest poverty incidence (25 percent) among the five countries.

Table 4. The Agricultural Sector in the Five Countries

Country	(a) Total land area (1000 ha)	(b) Agricultural land		(c) Population		(d) Population density (per km ²)	(e) Poverty incidence (%)	(f) Human Dev't. Index (Rank)
		Area (1000 ha)	% of total land	Total population (millions)	Rural population (%)			
Bangladesh	13,017	9,194	70.6	164.7	64.0	1,265	24.3	138
India	297,319	179,721	60.5	1,339.2	65.1	450	21.9	129
Indonesia	181,157	57,000	31.5	264.0	44.4	146	10.6	115
Nepal	14,335	4,121	28.8	29.3	80.0	204	25.2	148
Philippines	29,817	12,440	41.7	104.9	55.9	352	21.6	111

Sources: Columns (a), (b), (c) and (d) are based on online FAOSTAT data. The population data is for 2017. Columns (e) and (f) are taken from UNDP, 2018. Poverty incidence (e) refers to the population living below the national poverty line.

Rice is the main crop in the majority of the countries. In Indonesia, for example, of its total agricultural land of 57 million hectares, one-fifth (10.68 million hectares) is devoted to paddy production. This is not surprising as rice is the main staple for their population. Other major crops include wheat, maize, millets, barley, corn, and coconut. Ironically, however, rural poverty is high, from 40 to 84 percent.



Women in the agricultural sector

While there is a large number of women in the five countries who are involved in agriculture, there is very little support for women farmers.

In many Asian countries, women's access to land is mediated by conflicting frameworks. On one hand, the rights of women are legally defined by national Constitutions, Civil Codes, Family Law and statutes that emphasize equal rights to property, and non-discrimination. In reality, however, women's rights are often dictated by religious and traditional law. Thus, while the laws guarantee equal rights for both women and men in *public* life, the same is not true in *private* life where men's wishes usually hold sway, particularly in the household.

Support for organic farming

Organic farming is gaining support in all five countries. There has also been recent legislation to advocate for organic farming in India where a National Mission for Sustainable Agriculture was launched in 2014 to 2015 to make agriculture more productive, sustainable, remunerative, and climate resilient.

Indonesia has established a Ministerial Regulation on Organic Agriculture Systems, while in Bangladesh, a special government policy requires financing institutions to support organic fertilizer initiatives. The Philippines enacted an Organic Agriculture Act in 2010.

Despite the above legislation, however, much more needs to be done, particularly at the community and local government levels.

The situation of smallholder farmers in the five countries

While definitions of smallholder farmers vary among the five countries, these are based on two parameters, namely, size of landholding (from less than half a hectare to below five hectares) and ownership pattern (whether owner, tenant, or mere cultivator).

At the same time, smallholder farmers in the five countries face similar constraints, among them: living in remote villages, limited access to credit, technology, market and inputs, lack of irrigation, little income, vulnerability to typhoons, floods, pests, etc.

Credit needs and sources of smallholder farmers

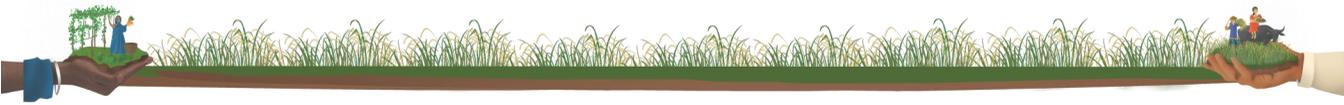
The following table inventories the credit needs and sources of small farmers in the five countries of study.

Table 5. Credit Needs and Sources of Smallholder Farmers in the Five Countries

Country	Credit Needs of Small Farmers	Credit Sources of Small Famers
Bangladesh	<ul style="list-style-type: none"> • Purchase of production inputs (seeds, fertilizer, pesticide, etc.); • Hiring of labor; • Farm investments (e.g., irrigation); • Family consumption needs while the crop is growing; and, • Working capital 	<ul style="list-style-type: none"> • NGOs, Microfinance Institutions, Cooperative Societies; • Various non-institutional or personal sources (e.g., <i>mahajans</i>, friends or relatives, <i>dadans</i> businessmen); and, • Government institutions
India	<ul style="list-style-type: none"> • Production inputs (seed, fertilizers, pesticides, labor, etc.); • Investment in farm equipment (e.g., irrigation); • Family consumption needs until the crop is ready; and, • Marketing of produce 	<ul style="list-style-type: none"> • Primary agricultural credit societies, Self Help Group (SHG) and Farmers Producers' Organizations; • Land development, rural, commercial and other types of banks; • Farmer honorarium (INR 6,000/year); and, • Kisan Credit Card
Indonesia	<ul style="list-style-type: none"> • Funds for capital investments; • Goods (e.g., production equipment and inputs, including fertilizers, medicines, seeds and agricultural equipment); and, • Technical support 	<ul style="list-style-type: none"> • Own funds and capital (e.g., land); • Formal credit from legal financial institutions (e.g., pawnshops, cooperatives, banks); • Non-formal credit from individuals or organizations; and, • KUR credit program of the government
Nepal	<ul style="list-style-type: none"> • Subsistence and commercial farming; • Irrigation system such as water pump, canal, and pumping machine; and, • Purchase of production inputs (seeds, pesticide, fertilizer etc.) 	<ul style="list-style-type: none"> • Landlords, microfinance; • Commercial banks; • Relatives and friends; • Agriculture Development Bank, Limited (ADBL); and; • Government institutions
Philippines	<ul style="list-style-type: none"> • Production requirements; and, • Consumption needs 	<ul style="list-style-type: none"> • Relatives and friends; • Government institutions; • Informal lenders; • Banks; and, • Cooperatives

As shown in the above table, the credit needs of farmers in the five countries are similar, including: a) purchase of production inputs [seeds, fertilizer, pesticide, etc.]; b) hiring of labor; c) farm investments [e.g., irrigation]; d) consumption needs of the family while the crop is growing; and, e) working capital for the marketing of farm produce.

Sources of credit are likewise similar across the five countries. These include: a) NGOs, microfinance institutions, and cooperative societies; b) various non-institutional or personal sources, e.g., *mahajans*, friends or relatives, *dadans* businessmen; c) various types of banks; and, d) a variety of government institutions (e.g., the Rural Development Board, Department of Youth Development, Department of Women Affairs, Department of Social Services, and others).



Hindrances to formal credit

Smallholder farmer hindrances to formal credit are likewise similar across the five countries.

These include the following:

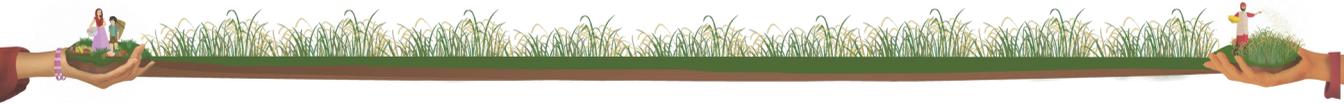
- Lack of land for credit collateral.
- Illiterate farmers have difficulty in complying with complex credit procedures (e.g., filling out of application forms, moving from one unit to another, bribery requirements, time-loss, among others).
- Formal credit programs do not address all of the farmers' credit requirements.
- Although women and other marginal groups (e.g., indigenous peoples) have some access to crop loans, they do not receive proper attention – let alone priority – from program officials.
- While official policy encourages organic farming, government officials admit there is no priority support for it at the grassroots.
- Smallholder farmers lack awareness about official agri-credit programs. There are inadequate information sharing mechanisms about the government's grant and loan programs.
- Smallholder farmers have a traditional negative conservative attitude towards borrowing. Credit systems also do not follow the pattern of farmers' lives, e.g., the poorest groups are located in villages far from the city, and smallholders live in remote areas where retail banking is limited and production risks are high as considered by lending institutions.
- Corruption persists in the public sector.
- Smallholder farmers do not have proper access to markets to sell their production. Middlemen do not provide fair prices for the produce of the farmers who also do not have sufficient facilities and working capital for the fair marketing of their product.

Description of government agricultural credit programs

Overview

Following is a brief overview of the five government agricultural credit programs selected for the studies. Generally speaking, these were selected because they are well-established programs with a significant outreach of target clientele.

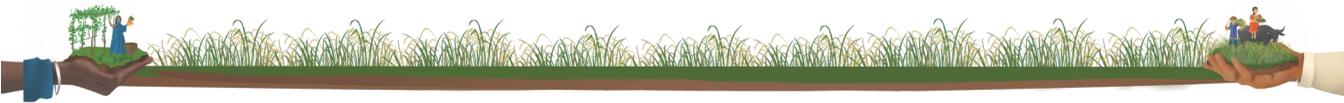
- **Bangladesh.** The crop loan program of the Bangladesh Krishi Bank (BKB) was chosen for study because it is the largest government credit program in the crop sector in terms of area, population and portfolio coverage. In fiscal year 2020 to 2021, for example, the total agricultural loan disbursement target for 55 banks is BDT 262.92 billion crore (over USD 3 billion); of this total, the BKB portfolio amounts to BDT 60 million (almost USD 700 million) crore, or about 23 percent of the total target.



- **India.** The Kisan Credit Card (KCC) is a pan-India program that aims to cover some 140 million farmers. The program does not only provide production credit but also provides loan for consumption expenditure and the maintenance of farm assets. Up to a certain amount, KCC loans are provided on a collateral-free basis.
- **Indonesia.** The Indonesian program chosen for this study is the Bank Rakyat Indonesia – People’s Business Credit (BRI-KUR), which has a IDR 70 trillion (approximately USD 4.9 million) budget in 2021. It was selected because it has the highest number of debtors and loan ceilings in Indonesia. The KUR program aims to increase access for micro, small, and medium enterprises (MSME) to funding distributed by both government and private financial institutions under a guarantee scheme. BRI is also expanding financial access for the public through BRILink, which is available in all villages (even the remote ones) across the country so that people can conduct transactions, including paying their KUR loans anytime and anywhere.
- **Nepal.** Approximately 84 percent of Nepalese live in rural areas and depend on subsistence agriculture for their livelihoods and to provide food for themselves. Nepal has 2.7 million smallholder farmers who comprise 62.8 percent of the country’s total number of farmers. The Government of Nepal has introduced agricultural credit program of the Agricultural Development Bank, Limited (ADBL) in parallel with the Prime Minister Agriculture Modernization Project (PMAMP) through the Ministry of Agriculture and Livestock Development (MoALD) to support smallholder farmers to produce corn. The area selected for this study is the Gadhawa Rural Municipality, which is about 400 kilometers from Kathmandu. Gadhawa has a total population of 11,430, of which 6,687 are affiliated with the maize superzone program under ADBL/PMAMP. Of these, 64 percent (4,300) are women smallholder farmers. This study was mainly focused on a Tharu community of Katyanggaun and involved consultations with 27 of the 55 small farmer-beneficiaries.
- **Philippines.** The Agrarian Production Credit Program (APCP) is a PhP 2.5 billion (approximately USD 49.8 million) credit facility jointly implemented by three government agencies in collaboration with farmers’ groups, cooperatives, NGOs, and the private sector. The APCP assists agrarian reform beneficiaries (ARBs), including landless farmworkers, in terms of their credit needs and also provides other vital support services, e.g., capacity building, linking farmer organizations to value chains, investments in rural infrastructure and communication, and agricultural extension services, related to appropriate modern farming technologies and innovations.

Objectives

As shown in the table below, the objectives of the five public credit programs share common elements, e.g., the focus on farmers, income and employment generation, increased productivity, among others. The focus of the programs on farmers as their main beneficiaries is important, if only to ensure that the resources and benefits of the programs are not intended for the rural elite who would likely have sufficient internal resources to meet their internal production and marketing needs.



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Table 6. Objectives of Selected Public Credit Programs

Country	Credit Program	Objective
Bangladesh	Bangladesh Krishi Bank Crop Loan Programme (BKB)	Help farmers achieve self-sufficiency in food production and strengthen the rural economy
India	Kisan Credit Card Crop Loan Programme (KCC)	Ensure that the credit requirements for farmers in the agriculture, fisheries, and animal husbandry sector are being met
Indonesia	Bank Rakyat Indonesia – People’s Business Credit (BRI-KUR)	Generate employment and income for farmers and help to expand their business
Nepal	Agricultural Development Bank, Limited (ADBL) in parallel with the Prime Minister Agriculture Modernization Project (PMAMP)	Increase production, productivity, management of inputs and technical manpower, mechanization, and development of marketing infrastructure
Philippines	Agrarian Production Credit Program (APCP)	Ensure sustainable production of crops and increase the productivity, income, and capacities of agrarian reform farmers-beneficiaries

Basic Features of the Credit Programs

The following table lists the key features of the five credit programs in six areas, namely: eligible borrowers, eligible projects, loan amounts, loan interest rates, loan terms, and repayment schedules.

Program coverage and targeted clientele

Clientele of the five credit programs are similar, with nuanced characteristics based on the unique situation obtaining in each of the five countries.

The Bangladesh credit program targets 10 million households engaged in Boro production while the coverage of the four other credit programs is nationwide.

Table 7. Basic Features of Credit Programs

Features	Bangladesh	India	Indonesia	Nepal	Philippines
Eligible Borrowers	<ul style="list-style-type: none"> • Farmers who are actively involved in cropping throughout the year; • Farmers who have been long-time borrowers; • Farmers with a bank account of BDT 10; • Farmers having a "Farmer's Card"; • Landless farmers; and, • Sharecroppers 	All types of farmers	All types of farmers	All types of farmers	Agrarian reform farmer beneficiaries (ARBs) through their organizations (ARBOs) based on the following requirements: <ul style="list-style-type: none"> • with legal personality; • operational for the past six months; • with core management team; and, • with credit systems and procedures in place
Eligible Projects	Crop production	<ul style="list-style-type: none"> • Farm production • Home consumption • Maintenance of farm assets 	<ul style="list-style-type: none"> • Farm production • Purchase of farming tools 	<ul style="list-style-type: none"> • General Loan • Agriculture Development Loan • Livestock Development and Fishery Loan 	<ul style="list-style-type: none"> • Crop Production • Agri-enterprise and Livelihood
Loan Amount Limit	USD 940 (BDT 80,000) for the cultivation of Boro hybrid paddy on 100 decimal of land (=1 acre, or 0.4 hectare)	<ul style="list-style-type: none"> • Loans range from USD 135 to USD 4,032 (INR 10,000 to INR 300,000), based on size of land holding and crops cultivated • Out of the total loaned amount, 10 percent is allowed for consumption needs and 20 percent is the ceiling for asset formation 	Loans range from USD 1,700 to USD 3,500 (IDR 25 to IDR 50 million)	Loans range from USD 16,736 to USD 25,105 (NRs 2 to NRs 3 million)	<ul style="list-style-type: none"> • Up to 80 percent of the total project cost • For agri-enterprises and livelihood projects • For those with existing crop production loan, up to 10 percent of the outstanding loan portfolio • For those without existing crop production loan, not to exceed PhP 1 million (USD 20,000) per farmer organization



Features	Bangladesh	India	Indonesia	Nepal	Philippines
Interest Rate (per annum)	Eight percent (reduced from nine percent)	Four percent	Five percent	Nine to 12 percent	<ul style="list-style-type: none"> 8.5 percent per annum for short-term loan 9.5 percent per annum for long-term loan (inclusive of two percent per annum Incentives for service conduits)
Loan Terms	Six to 18 months	Credit card valid to three to five years, subject to annual review	<ul style="list-style-type: none"> Maximum of three years for working capital credit/financing Maximum of five years for investment credit/financing 	Five years (with possibility of extension through renewal)	<ul style="list-style-type: none"> For short-term loan: term of not more than one year For long-term loan: up to seven years inclusive of three-year grace period
Repayment Schedule	To be paid in monthly installments	Flexible; farmers can repay depending on the harvesting period of their crop for which the loan was extended	<ul style="list-style-type: none"> To be paid in monthly installments Based on crop cycle (according to the results of the analysis team from the bank) 	To be paid in monthly installments	Based on crop cycle, cash flow and/or remaining useful life of the asset finance
Collateral Requirements	No collateral for those tilling two hectares below	No collateral required for loans up to USD 2,150 (INR 160,000)	Land certificate/Land rental receipt	Land certificate	<ul style="list-style-type: none"> Deed of Assignment of promissory notes and underlying collateral Deed of Assignment of market contracts Deed of Assignment of crop insurance proceeds (if any) Chattel mortgage
Repayment Rates (Fiscal Year 2020)	90 percent	88 percent	88 percent	96 percent	58 percent

Target clients of the Bangladesh program are farmers with the following characteristics: a) actively involved in cropping throughout the year; b) long-time borrowers; c) with a bank account of BDT 10; d) in possession of a “Farmer’s Card”; e) landless farmers; and, f) sharecroppers.



The Indian and Indonesian programs are both open to farmers belonging to all categories, including tenants and sharecroppers. The Indonesian program has both individual farmers and farmer-groups as its clients.

While the clients of the Nepali program are nationwide, the case study focused on residents of Ward No. 3 of the Gadhwara Rural Municipality. These are about 1,500 smallholder farmers who do actual work on their farms and have tenure security.

In the Philippines, the clients are agrarian reform beneficiaries (ARBs), mostly smallholder rice farmers, who have been organized as farmers’ associations or cooperatives.

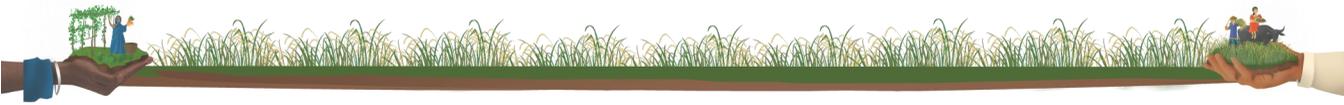
The inclusion of all farmers (in the case of India and Indonesia) as clients of the programs may lead to the dominance of rich and middle farmers in the control of program resources and benefits and the consequent exclusion of the poorest farmers (e.g., landless and sharecroppers). This requires further study.

While the design of the credit programs indicate that they should be able to reach the remote rural areas where poverty is most prevalent, the country studies suggest that the programs have difficulty reaching the poor in remote rural areas. This is an important area of further study for the five programs.

Types and amounts of loans

Loans from the five programs can be used for the purchase of agri-production inputs, both materials and labor. However, only the Indonesian program allows the use of the loan for purchase of farm tools.

The Indonesian and Philippine programs allow the use of their loans for enterprise and livelihood purposes. However, only the Indian program allows the use of its loan (up to 10 percent of face value) for home consumption purposes.



The Bangladesh credit program provides a loan of USD 940 for the cultivation of Boro hybrid paddy on 100 decimal of land, which is equivalent to one acre, or one-fourth of a hectare. Loan proceeds can be used for the purchase of fertilizer, seeds and insecticide, provision of irrigation, land preparation, labor wages, and land rent.

In India, farm loans range from USD 135 to USD 4,032. The specific amount is decided on the basis of the landholding and crops cultivated. Loan uses include farm production, home consumption, and farm assets maintenance.

In Indonesia, loans range from USD 1,700 to USD 3,500 and may be used for farmland cultivation and the purchase of farm tools.

In Nepal, two types of loans are provided. The general loan is provided to smallholder farmers who are not members of a registered agribusiness firm, while the Agriculture Development Loan is provided to those farmers affiliated with registered agriculture firms. Similarly, Livestock Development Loans and Fishery Loan are available. Loan amount ranges from USD 16,736 to USD 25,105.

Lastly, the Philippine program provides loans for agricultural production, agri-enterprise, and livelihood projects. Loan amount is up to 80 percent of the total cost of the project.

Types and amounts of other financial assistance

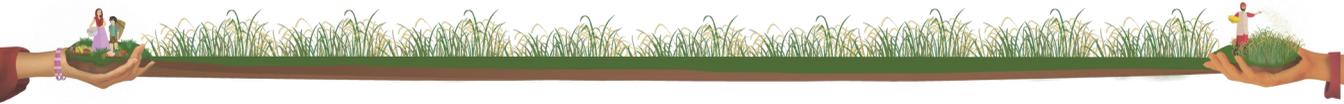
Apart from their loans, the credit programs in Bangladesh, India, and the Philippines do not provide any other form of financial assistance.

Aside from the ADBL loan, the Nepalese program also provides grants for the purchase of new agriculture technology and to manage irrigation facilities through the PMAMP. Grant support varies from 50 to 85 percent of the cost of technology and is also based upon the agricultural production and income sources of farmers. Farmers need to contribute from 15 to 50 percent of the project cost.

Support services

Support from the Indonesian KUR program includes agribusinesses that consist of: a) downstream economic activities that produce agricultural inputs, such as, fertilizers, pesticides, and agricultural machinery; b) primary agricultural cultivation; c) upstream activities, e.g., managing and marketing agricultural commodities, such as, rice milling, procurement and marketing of agricultural products; and, d) support services, such as technology and capital.

A major support service of the Indian and Nepali programs is the dissemination of popularized knowledge materials on their programs through the use of radio and posters.



Capacity-building of farmer clients is a major support service of the Bangladesh, Nepal, and Philippine programs. In Bangladesh, credit officials give various forms of financial advice to farmer borrowers. In Nepal, the PMAMP grant program provides a Junior Technical Assistance service to assist in organic farming initiatives and to sensitize farmers to plan the appropriate crops in the appropriate seasons. In the Philippines, field officers support agrarian reform beneficiaries and their organizations in the preparation of loan documents and professional mentors are deployed to assist farmer organizations in: a) organizational visioning and operational planning; b) setting-up of the loan disbursement and repayment procedures; and, c) institutional development and strengthening of farmer organizations.

Repayment rates

The following table lists the repayment rates of the five credit programs.

Table 8. Repayment Rates of Selected Public Credit Programs (FY 2020)

Country	Credit Program	Repayment Rate
Bangladesh	BKB Crop Loan	90 percent
India	KCC Loan Programme	88 percent
Indonesia	BRI-KUR Program	88 percent
Nepal	ADBL Credit and PMAMP Grant	97 percent
Philippines	Agrarian Production Credit Program	58 percent

In their initial years, both the Indian and Philippine programs had high repayment rates of at least 88 percent. Unfortunately, the repayment rate of the Philippine program dropped significantly to 58 percent in 2020 due to the COVID-19 pandemic.

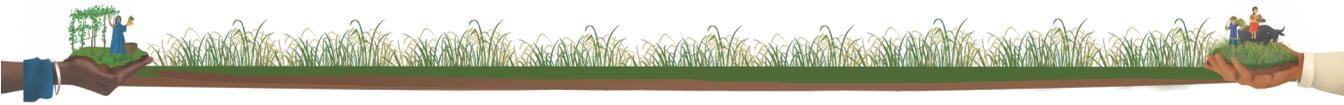
It would be interesting to study further the contingency measures taken by the Philippine program to improve its repayment rate and those measures utilized by the Indian program to maintain its high repayment rate.

Sanctions for non-repayment

The sanctions of the five programs on delinquent borrowers have common characteristics, i.e., they employ fines, impose delinquency interest rates, and issue warnings to potential loan delinquents.

In Bangladesh, when farmer-borrowers do not pay their loans, these are restructured with a corresponding penalty of an increased interest rate. While cases can be filed against loan-defaulters, BKB officials stated that they do not usually resort to this measure.

In Indonesia, the BRI will usually give a warning to late-paying debtors first and later conduct loan restructuring and rescheduling. In restructuring, the bank and debtors adjust the repayment scheme to the debtor's business earnings. In rescheduling, the debtor may opt to change the due date for loan payment. Rescheduling is the last resort for delinquent debtors.



If debtors are still unable to reschedule payments, the bank will confiscate their collateralized assets. Debtors will then be disallowed from obtaining further credit from the banks.

In Nepal, smallholder farmers pay fines in the case of non-repayment. If the loan installment payment is not paid within the fiscal year, the total interest amount to be paid in the previous fiscal year is added to the principal amount, thereby increasing the principal. If smallholder farmers come to an agreement with the ADBL to pay interest every month, they will have to renew their loan at the end of every fiscal year with a service charge of 0.5 percent. This is similar to the Philippine program where late payment of loan instalments is charged with a three percent fine on the amount loaned.

In India, the farmer-borrower has to pay an interest penalty of seven percent per annum in case of non-repayment. In extreme cases, the farmer's KCC card may also be rendered invalid. In this scenario, the delinquent borrower is blacklisted and cannot avail of a loan from any bank.

Clearly, the sanctions of the Indian program are quite strong. This probably explains why the Indian program continues to enjoy its high loan repayment rate.

Credit channels

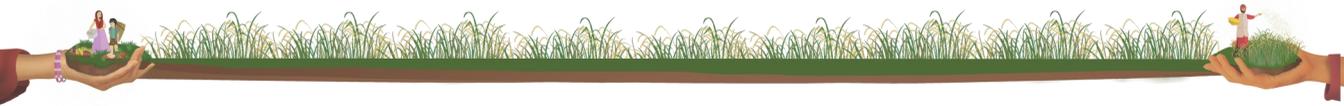
All five programs use the traditional banking systems in their respective countries. While this is efficient (and hopefully sustainable), it must be noted that smallholder farmers are more comfortable in dealing with informal lenders on a one-on-one basis. Smallholder farmers tend to be intimidated by well-dressed loan officers in plush bank branches. This issue needs further study.

In Bangladesh, loans are provided across the country through the more than 1,000 BKB bank branches. The only exception is the greater Rajshahi region where RAKUB, another regional public agricultural bank, serves as credit channel.

In India, loans are channelled through participating commercial, regional, rural, and cooperative banks.

In the Indonesian program, prospective borrowers can prepare and submit online their application for KUR-BRI loans without having to go physically to a bank branch. The BRI-KUR program provides loans to debtors through its 10,396 BRI branches in Indonesia. BRI also has a service without an office – “BRllink” – that can help debtors deposit their monthly loan payments without having to go to the bank office. In 2019, there were 422,160 “BRllink” agents all over Indonesia, including rural villages.

In the Nepalese program, the Gadhwaha branch can approve of loans of up to 20 to 30 hundred thousands to a single farmer. In the ADBL Gadhwaha branch, a single loan section is responsible to provide multiple loans, including agriculture, livestock,



education, and other small loans. This section is the responsibility of a single female staff member.

In the Philippines, Land Bank of the Philippines (LBP) provides wholesale loans to recipient ARB organizations that then provide loans on a retail basis to their farmer-members.

Credit program management and staffing

The following table describes the management and staffing patterns of the five programs in the implementation of their respective credit activities.

Table 9. Credit Program Management and Staffing Pattern of Public Credit Programs

Country	Management and Staffing
Bangladesh	In the BKB branches, credit section is under the Branch Manager. Officer-In-Charge of the credit section works with credit officials to identify potential farmer borrowers.
India	Since loans are provided through the traditional banking system, the program is managed in much the same way as regular ATM services.
Indonesia	Involves 10 government offices (Ministry for Economic Affairs, National Development Planning Agency, Ministry of Finance, Ministry of Agriculture, Ministry of Industry, Ministry of Marine Affairs and Fisheries, Ministry of Trade, Cabinet Secretary, Ministry of Home Affairs)
Nepal	In Gadhawa branch, PMAMP has nine staff (5 females and 4 males) involved in field monitoring, office operations, and daily financial transactions. PMAMP is also mobilizing agriculture students who are waiting for their on-the-job training assignment.
Philippines	Implemented by five government agencies (Departments of Agriculture, Agrarian Reform, Environment and Natural Resources, Philippine Crop Insurance Corporation, and the Land Bank of the Philippines) Land Bank of the Philippines acts as fund administrator, lending directly to the farmer organizations.

The use of ATM facilities by the Indian program deserves further study as it may be worthy of replication in other programs and contexts.

The Indonesia and Philippine programs involve the participation of several government agencies. It may be worthwhile to examine the coordination among these government agencies since smallholder farmers prefer specialized systems – more handholding, less bureaucracy, more flexibility, a more holistic approach, closer monitoring, etc. – in dealing with their creditors.

Review of the selected government agricultural credit programs

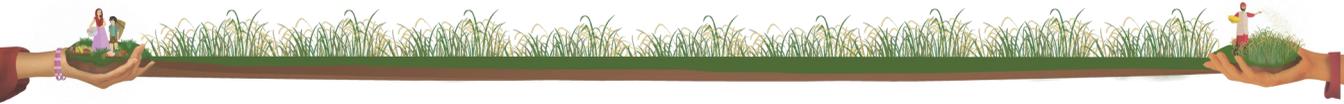
Responsiveness of credit programs to the needs of smallholder farmers

There is little question that the credit programs do respond to the needs of the smallholder farmers. The fact of their long-term survival is itself an indication of their responsiveness to (at least) some of their clients' needs.

At the same time, however, it should be recognized that certain factors limit the access of their target clients to the credit services of their respective governments. The following matrix identifies the factors that have been identified to limit the access of smallholder farmers' access to the government credit programs. These factors have been classified into five, namely: borrower eligibility requirements, difficult credit procedures, unmet credit requirements of farmers, non-prioritization of women farmers, and limited support for organic farming.

Table 10. Factors that Limit Smallholder Farmers' Access to Government Credit

Country	Borrower Eligibility Requirements	Credit Procedures and Processing	Unmet Credit Requirements	Non-Priority of Women Farmers	Limited Support for Organic Farming
Bangladesh	Requirement of land as collateral inhibits landless farmers to avail of the program	Complex credit procedures, e.g., filling out of application forms, make it difficult for non-literate farmers to apply In some instances, officials require bribes from farmer-borrowers	Part of the farmers' credit needs (i.e., consumption) is not met by the BKB crop loan	Women farmers do not receive proper attention from officials	Organic farming practitioners not able to apply for loans to support their activities No effort to link farmers with government departments who promote organic farming
India	Lack of knowledge and low level of awareness Farmers reluctant to borrow because of traditional attitude against borrowing and fear of consequences in case of non-repayment of loan	Lack of farmers' awareness about credit programs Farmers' difficulty in interacting with bank procedures and officials force them to depend on middlemen Non-cooperation by bank officials due to heavy work-loads Traditional hesitancy of rural poor to access loans	Some credit needs not addressed, e.g., production, processing, marketing, asset purchase, consumption	Women farmers are not prioritized despite mandated outlays	Gaining ground at country level but needs more support at local and grassroots levels
Indonesia	Numerous loan application requirements Credit program has no provisions for administration fee Working capital loan has maximum term of only three years	Credit systems do not follow the pattern of farmers' lives The poorest groups are located in villages far from the city	No initiative by government to provide different types of support to farmers with varying needs, (e.g., no accommodation for farmers who want to engage in both production and marketing)	Women have not been targeted sufficiently by the KUR Program	No direct support for organic farming



Nepal	<p>Landless and sharecroppers cannot get ADBL and PMAMP assistance</p> <p>Some people who were born in Nepal, but are not eligible for citizenship certificates, cannot get government grants or credit</p>	<p>Lengthy and difficult application procedures for getting government credit, especially without separate ADBL Relations Manager(s) to help farmers</p>	<p>More requirements to access ADB credit than for PMAMP grants (e.g., farmers need to register firms to get ADBL agriculture loans at low interest rates) that small holder farmers cannot comply with</p>	<p>While land is registered in women's name, they are rarely involved in the decision to invest loans in certain crops</p>	<p>Validation process of organic farming is lengthy and requires heavy farmers' investment</p> <p>Despite high market demand for organic products, local governments have no experimental mechanisms for organic farming and farmers not yet able to distinguish between organic and non-organic production</p>
Philippines	<p>Smallholder farmers are considered high risk by lending institutions</p> <p>Eligible borrowers must have legal personality duly registered with mandated government agencies</p> <p>Lending systems and procedures need to be in place</p>	<p>Limited number of bank staff cause delayed release of farmers' loans</p> <p>Lack of competent and staff of farmer organizations to manage program</p> <p>Lack of timely info on credit program</p> <p>Lack of close monitoring of credit program</p> <p>Limited service area coverage as many small farmers live in remote areas</p>	<p>Some farmers still experience difficulty complying with the program's documentary and collateral requirements (e.g., need for land title)</p> <p>Farmers who are not part of the government's agrarian reform program are not eligible</p>	<p>The provision of credit has limited participation of women and the youth sectors</p> <p>Lack of credit windows and capacity-building interventions for women</p>	<p>APCP not yet fully supportive of the adoption of organic farming</p> <p>APCP appears to be promoting modern farming technology as most farmer-clients have adopted conventional farming technologies</p>

Despite the efforts of program implementers to simplify credit processes, farmer-borrowers continue to have difficulties in compliance with loan requirements and procedures. For one, application forms are still in English and this forces applicants to rely on middlemen. And, as mentioned in the table above, the program's collateral requirements of a land title or certificate automatically exclude sharecroppers and the landless from the program.

At least in part, the existing complications in the credit processes are due to the fact that the loans are channeled through the traditional banking systems whose processes are rooted in the assumption that their clients are well-endowed and educated.

At the same time, it must be admitted that the use of the traditional banking systems enables the programs to have extensive coverage. This is due to the well-established nationwide branch networks operating in the mainstream banking systems within the five countries. Clearly, there is a trade-off that requires much study if it is to be resolved.



The non-prioritization of women in the credit programs continues to be problematic. While the policies for women’s prioritization appear to be in place, what seems to be required is the political will of key program stakeholders to implement these. The same holds true for the adoption of, and support to, organic farming; in this case, however, it is recognized that the required initiatives must be borne by the local government units.

Strengths of government agricultural credit programs

The long-term survival of the five public credit programs is due to a number of key strengths that are shared, at least in large part, by these programs. These strengths have been grouped into four areas, namely, scope and coverage, simplicity of documentation requirements, staffing complement, and low interest rates. The following table lists these key strengths.

Table 11. Strengths of Selected Government Agricultural Credit Programs

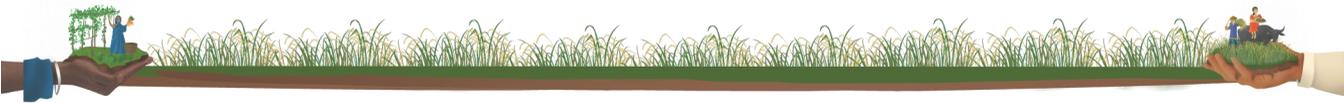
Country	Scope and Coverage	Simplicity of Documentation	Staffing Complement	Low Interest Rates
Bangladesh	<ul style="list-style-type: none"> • Largest government credit program in the crop sector in area, population and portfolio coverage • Wide operational network of 1,038 branches all over the country covering 50 districts, nine city corporations and 607 unions 	Simple documentation	<ul style="list-style-type: none"> • BKB has established 63 field level audit offices (nine at division and 54 at regional levels) as part of its internal control, integrated compliance system • As one of the oldest specialized banks, BKB also has a very experienced human resource base with 9,430 staff as of 31 December 2010 (BKB, 2020). 	BKB program has a lower loan interest rate compared to other banks providing agricultural credit
India	All over the country	<ul style="list-style-type: none"> • Program is handy and relatively simple to operate • To address cost escalation, the Program allows automatic increase of 10 percent in the loan amount 	Program has adequate personnel	Program has very low rate of interest of four percent per annum



Indonesia	<ul style="list-style-type: none"> • BRI's KUR target in 2021 is higher compared to other banks at US\$ 4.8 billion • BRI is also expanding financial access for the public through "Brilink," which is located in all villages 	Program implementation is hassle-free and practical	<ul style="list-style-type: none"> • BRI KUR center is adequately staffed with directors, executives, business and support divisions and one special investigative group • Every bank involved in KUR program has a special organizer focused on running the program • Training is provided for KUR organizers in the banks and in the government 	KUR Program has relatively low interest rate of six percent per year
Nepal	Besides production loan, ADBL credit and PMAMP grant support education and health facilities for children and household members	Program does not require documents needed by other credit programs, such as, land map, credit history in other institutions and salary certificates	Program has adequate personnel	Program provides farmers with loans at a comparatively low interest rate
Philippines	Program is being implemented nationwide and targets mostly smallholder rice farmers	<ul style="list-style-type: none"> • Program continues to simplify loan processing and lessen documentary requirements • Program accepts certificate of crop insurance and chattel mortgage as innovative loan collaterals 	<ul style="list-style-type: none"> • Ample staff in providing credit information and facilitating loan applications in the field • Close coordination among participating government agencies 	Loan interest is relatively low compared to other government credit programs

The major strength of the programs is obviously in their scope and coverage, which is mostly nationwide. This broad coverage is made possible by the programs' use of the existing infrastructure of the traditional banking systems (including the systems' highly-experienced staff) in their respective countries.

The previous section cited lengthy and complicated loan procedures and requirements as a limiting factor to farmers' access to the loans of the public credit programs. Yet, it is now being cited as one of the strengths of the programs. At the outset, it must be stressed that the "simplicity" of the programs' loan documentation



requirements is relative, rather than absolute. Simply stated, the programs' loan requirements may be considered simple when compared to those now obtaining in the conventional banking systems of these countries.

At the same time, it must be recognized, as has been mentioned earlier in this paper, that the documentation and processing requirements of these programs remain complicated when compared to those of traditional moneylenders, the long-time source of loans for smallholder farmers and their communities.

A second major strength of the programs is the relatively low interest rates offered by the programs to their farmer-clients, when compared to those offered by the conventional banking system of their countries.

The third major strength of the programs are their staff complements. These are considered to be adequate, competent and sufficiently knowledgeable and experienced in dealing with smallholder farmers.

Challenges faced by government agricultural credit programs

The major challenges encountered by the five programs lies in their lack of accessibility, which is manifested in a number of ways, among them: a) majority of the programs do not provide support for the farmers' consumption needs; b) there is still insufficient awareness among the clientele about the programs' procedures and benefits; c) women, indigenous people, and other marginal groups have limited access to the crop loan as they do not receive the proper attention from credit program officials; and, d) the programs may have (unintentionally) widened the gap between rich and poor farmers since landless and tenant peasants have limited actual access to these programs.

In relation to the last point above, the Indonesian program does not support start-ups. Instead, it requires that the businesses of prospective debtors should have been in operation for at least six months and registered in an e-commerce platform. Also, prospective debtors must meet the administrative requirements of the credit distribution bank, including collateral requirements, while loan amortization payment schedules remain a challenge as these may not be in accordance with the harvest cycle.

At first glance, the Philippines appears to have a sound strategy of using the organizations of agrarian reform farmer-beneficiaries as conduits of loans to their members and building the capacity of these organizations so that they may eventually access loans directly from the regular lending window of Land Bank of the Philippines (LBP). However, the actual number of farmer organizations who have accessed the regular lending window of the LBP remains low at 16 percent of total debtor-organizations. In this regard, there may be need to review the APCP objectives if these are realistic and consistent with the regular credit program of LBP to assist farmers.



Finally, farmers still complain of complex loan documentation requirements and long processing times, despite the ongoing efforts of credit program implementers to streamline their policies and procedures.

Overall observations

The five programs under study are clearly relevant to the credit needs of their target clientele. By and large, they have been accessible to their farmer-customers, although with some exceptions. And the programs have already begun to adjust their procedures to address the COVID-19 pandemic.

In Nepal, the COVID-19 pandemic has had major negative impact on the selling of agriculture produce; in turn, this has adversely affected the payment of principal and interest of agri-credit. Also, there is still no special program for organic farming at the level of the local governments.

In India, the KCC has proved to be a very effective nationwide tool in enhancing agricultural production by providing timely, adequate and hassle-free credit support at a very low rate of interest. It has helped greatly in freeing farmers from the clutches of local moneylenders. The KCC has also improved financial inclusion in the agriculture sector. Researchers have found that the lending by cooperative banks (in the district of Mohali, Punjab) has had significant impact despite the problem of past-due and defaults in loan repayments.

In the Philippines, the APCP credit program covers the full range of activities in the crop cycle, from the provision of credit to increase production efficiency up to consumer sales.

Despite the above achievements, however, problems persist. In Bangladesh, for example, while the BKB Crop Loan program has been fairly effective, a section of smallholder Boro farmers remain unable to participate in the program.

In Indonesia, smallholder-farmers, the target clients of the credit program, have not felt the benefits of the program in a holistic manner. As a government-appointed credit distributor, the Indonesian bank has not been able to fully facilitate funding for farmers' needs, which are the basis of loan requirements. The bank has merely acted as capital provider. As a result, a number of debtors have misused KUR funds or used them for non-agricultural needs. The provision of credit also does not imply support for sustainable development; in fact, the KUR system actually supports an agricultural system that may be considered environmentally-unfriendly.

And finally, women have not yet become a priority target for the credit programs.



Recommendations

There are four main categories of recommendations, namely: a) the public credit program itself; b) gender-related concerns; c) support for the adoption of organic farming; and, d) measures to enable farmers to cope with the COVID-19 pandemic.

Details of the following recommendations are presented in the case studies of the selected agricultural credit programs in the five countries.

Design and operations of the public agriculture credit programs

Improving the credit program seeks to make it more relevant to the needs and overall context of the smallholder farmers who are its main clients, thereby making its services more accessible to them. There are four sets of recommendations for the credit program, namely: a) governance, b) capacity-building, c) information dissemination, and d) the loan package.

Governance is the system by which the public credit program operates and the mechanisms by which it, and its people, are held to account. *Capacity-building* is the process of developing and strengthening the skills, instincts, abilities, processes, and resources of the key officers and conduit organizations who are involved in the operations of the credit program. *Information dissemination* involves the sustained provision of the key details of the credit program to its key publics. The *key features of the loan package* are related to the details of the various types of loans provided by the program and their key repayment mechanisms.

Table 12. Improving the Public Credit Program on Agriculture

Country	Governance	Capacity-Building	Info Dissemination	Loan Package
Bangladesh	Ensure good governance in BKB management so that policies are well-implemented and marginal farmers can access crop loans easily BKB credit policies and implementation strategies should be relevant and address grassroots realities	BKB officials should be trained on the Bangladesh Bank provisions related to smallholder farmers Credit officials should be able to identify the real farmers, thus removing the need for intermediary middlemen The shortage of human resources at BKB branches should be addressed so that these can serve loan applicants properly	Information about the crop loan should continue to be disseminated to smallholder farmers	Group-lending approaches should be explored The National Identification Card (NID) should be considered as collateral to enable landless farmers and sharecroppers to access the Crop Loan
India	Governance is up to mark	Semi-illiterate farmers seeking loans should be assisted properly by bank officials Bank officials should be sensitized to deal properly with smallholder farmers	Smallholder farmer camps should be organized to generate more awareness about the benefits of KCC scheme	Loan amounts should be increased to meet the escalation in prices

Indonesia	<p>Law should be issued to specify loan application procedures and the obligations of each stakeholder</p> <p>Regional governments should be mandated to monitor KUR distributor-banks</p> <p>Cooperation should be established between regional governments and banks in dissemination activities, mentoring and monitoring funds use</p>	<p>Provide assistance to farmers in financial literacy, use of the loans and how to scale-up production to the post-harvest process</p> <p>Link with agricultural extension workers to assist and mentor KUR farmers in agricultural production</p>	<p>Allocate funds for info dissemination activities, mentoring, and M&E of the KUR funds managed by regional governments</p> <p>Bring together KUR stakeholders and implementers (BI, linkage bank, local government, and regional organizations) to enable them to get a better understanding of each other's roles</p>	<p>Involve debtor-farmers in decisions on the mode and timing of loan installment payments to address the farmers' uncertain income from agricultural production</p> <p>Allow loan installment payments to be deferred when even a non-natural disaster occurs, such as, the COVID-19 pandemic</p>
Nepal	<p>Improve coordination between ADBL and PMAMP in distribution of loans and grants to meet agri-credit needs</p> <p>Local governments to set up M&E mechanism for the distribution of credit and grant resources</p>	<p>Smallholder farmers should also be capacitated in the use of electronic mobile banking, ATM and internet services</p> <p>Smallholder farmers should be trained in using organic fertilizer and other necessary medicines in their crops to increase production</p>	<p>Government should inform all stakeholders, particularly, the small-holder farmers and local governments, on laws, policies and acts related to agri development and the government's credit program, including any revisions in loan procedures</p>	<p>Amend current policy to include the landless and sharecroppers in the ADB and PMAMP credit and grant schemes</p> <p>As interim measure, the government should instruct financial institutions to accept payment of loan interest on installment</p> <p>Program loan procedures should be revised further to remove any delaying processes to prevent farmers from spending much money and time</p> <p>Use of ATMs and mobile banking facilities should be incorporated to facilitate loan releases to the farmers</p>
Philippines	<p>Provide effective whole-of-government support to address the following constraints of small farmers</p>	<p>Encourage the recruitment and training of qualified staff for farmer organizations</p> <p>Provide refresher course on values formation, leadership, financial management, and marketing support</p> <p>Provide consistent mentoring in the field</p> <p>Develop training programs for women and youth to serve as second liners</p> <p>Increase the budget for capacity building to recruit and train more trainers and mentors</p>	<p>Government implementing agencies to conduct regular dialogue with farmers, starting from the provision of infographics and IEC materials (i.e., printed tarpaulin, posters)</p> <p>Disseminate basic information on credit program and other services through social media platforms (i.e., postings on FB page)</p> <p>Given the pandemic, provide access to loan applications online with support from approachable hotline agents</p> <p>Conduct regular consultations for instant feedback and to understand the situation of the farmers as part of the M&E component of the program</p>	<p>Philippine Crop Insurance Commission (PCIC) should:</p> <p>a) simplify documentary requirements, b) extend deadline for submission of documents; and, c) include drought as part of its insurance package</p> <p>Reduce further loan documentary requirements</p> <p>Ensure that farmers who prefer organic farming are able to receive program assistance</p>

Gender-related concerns

Incorporation of gender concerns in the design and operations of the credit programs is important for many reasons, among them, the fact that, despite the large number of women in the five countries who are involved in agriculture, there is still very little support for women farmers.



In essence, gender-related concerns need to be incorporated into the design and operations of public credit program in at least two key areas, namely, the inclusion of women-farmers among the eligible borrowers of the credit program and the inclusion of women among the staff responsible for the operations of the credit program.

The following table lists a number of recommendations related to the above two key areas. Complete details on the following recommendations may be found in the country case studies.

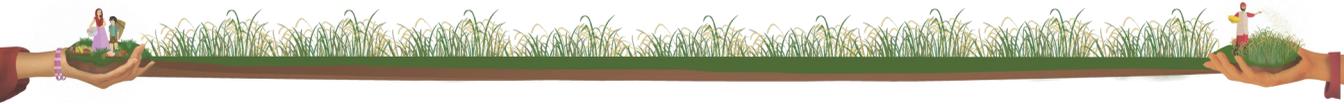
Table 13. Incorporating Gender-related Concerns in the Public Credit Program on Agriculture

Country	Inclusion of Women as Program Beneficiaries	Women as Staff of Credit Program
Bangladesh	<ul style="list-style-type: none"> • A gender-disaggregated farmers' list must be developed and distributed to each BKB branch and government agricultural facilities to ensure the inclusion of all women-farmers • Measures should be taken to inform women-farmers about the BKB 	Women credit officers should be employed in at least one BKB branch of each Upazila (sub-district)
India	Specific strategies should be developed to prioritize women farmers	Women are already in good number
Indonesia	Despite the ease of accessing KUR and the efforts to require the wife's consent for KUR applications, KUR implementation still faces challenges for women inclusivity as it does not clearly mention specific benefits for women	Ongoing
Nepal	Government should enact policies and activities to ensure equality between men and women	Ongoing
Philippines	<ul style="list-style-type: none"> • Provide credit windows for women and youth to support family farming and development of their farmlands • Develop training programs for women and youth as second liners for the long-term sustainability of the farmer organizations 	Ongoing

Program support for organic farming

Simply stated, organic farming is a method that involves the growing and nurturing of crops without the use of synthetic-based fertilizers and pesticides. Organic farming relies on ecologically balanced agricultural principles, such as, crop rotation, green manure, organic waste, biological pest control, and mineral and rock additives.

Organic farming is gaining support in all the five countries. In India, for example, there has been recent legislation to advocate for organic farming in the country; a National Mission for Sustainable Agriculture was launched in 2014 to 2015 to make agriculture more productive, sustainable, remunerative, and climate resilient.



The Indonesian government has constituted a Ministerial Regulation on Organic Agriculture Systems, while in Bangladesh, a special government policy requires financing institutions to support organic fertilizer initiatives. While in the Philippines, an Organic Agriculture Act was enacted in 2010.

Despite the above legislation, however, much more needs to be done, particularly at the community and local government levels.

Perhaps unintentionally, the ongoing public credit programs in the five countries are more inclined to support inorganic methods of farming. Thus, intensive and continuing re-orientation is required to enable program implementers and country policymakers to appreciate the crucial link between the widespread adoption of organic farming and their countries' goal of sustainable development.

The following table lists a number of recommendations related to the promotion and support of organic farming within the ambit of the public credit programs. The recommendations have been classified into two categories, namely, information dissemination and the provision of incentives in the adoption of organic farming.

Table 14. Credit Program in Support of Organic Farming

Country	Information Dissemination	Provision of Incentives
Bangladesh	Wider information dissemination to keep the organic farmer-practitioners better-informed about the BKB crop loan	<ul style="list-style-type: none"> • Give greater acknowledgement to organic farming initiatives in the Crop Loan Program (e.g., loan interest waiver, flexible repayment schedule, other fringe benefits, etc). • Include organic farmers into the Crop Loan Programme on an Upzalia-wide basis
India	Greater information dissemination and incentives under the schemes related with organic farming	<ul style="list-style-type: none"> • Provide seeds and solar pumps, either free of cost or at subsidized rates • Institute awards to honor successful organic farmers
Indonesia	Budget allocation for dissemination activities, mentoring in providing assistance to the farmers managed by regional governments in coordination with the wider stakeholders to encourage the organic farming in the credit scheme	Consider organic farming practices in the policy making and credit scheme of KUR program
Nepal	Create mass awareness on organic farming through door-to-door and other communication strategies to encourage farmers to practice organic farming	<ul style="list-style-type: none"> • Provide loan subsidies for those who practice organic farming • Develop mechanism to differentiate organic and non-organic vegetables • Establish market to sell organic products
Philippines	Disseminate information materials on organic farming	Provide credit assistance to farmers who are using organic farming technology



Proposed measures of credit programs to respond to COVID-19

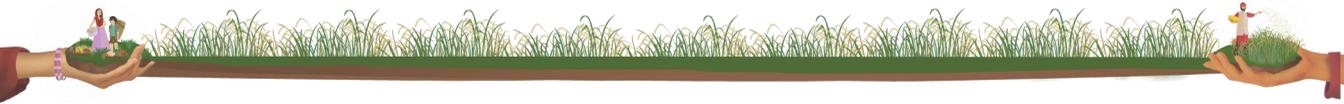
The current pandemic has further aggravated the plight of the small farmers, leading to the sharp increase in poverty in the rural areas. Thus agrifin programs should be re-designed in order to be responsive to the impact of the pandemic.

The following table presents the special requirements proposed by smallholder farmers to cope with the effects of the COVID-19 pandemic. The full details of these proposals may be found in the country case studies.

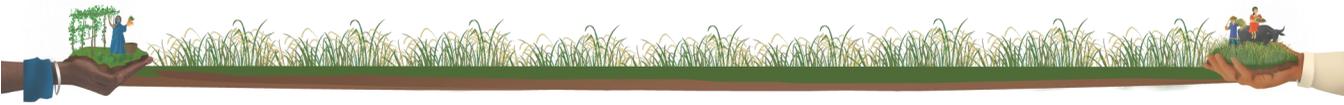
These proposed contingency measures involve: a) restructuring of previous and current loans; b) provision of additional loans that would support the various phases of the entire cropping cycle; c) further simplification of the loan documentation and processing requirements; and, d) provision of government subsidy in the three areas of production, marketing, and consumption.

Table 15. Proposed Features of a Credit Program Responsive to COVID-19

Country	Restructure Previous and Current Loans	Provide Additional Loans	Simplify Loan Processing	Provide Government Subsidy
Bangladesh	Rather than issuing a certificate case against defaulting farmers, restructure the loans	Provide full loan package to support production, storage, transport and marketing phases of the crop cycle	Provide interest-free, hassle-free, timely and adequate crop loans	Continue ongoing programs
India	Government to waive 50 percent of loans advanced to smallholder farmers	Implement provision on loan restructuring	No changes required	<ul style="list-style-type: none"> • Provide subsidy in prices of inputs, particularly, seeds and fertilizers • Provide special rebates on diesel prices used on agri-machinery • Provide free rations to smallholder farmers until the next harvest



Indonesia	Relax KUR requirements (e.g., defer payment of principal installment and ease loan restructuring)	Government to implement its National Economic Recovery Program (PEN) that incorporates a capital assistance component	Government has temporarily removed some of requirements to apply for KUR (e.g., business license, taxpayer ID, and additional collateral documents) Prospective debtors should be able to access KUR online	<ul style="list-style-type: none"> • Additional interest subsidy of six percent • Three percent interest subsidy on KUR loans to be applied from 1 January to 31 December 2021
Nepal	<ul style="list-style-type: none"> • Half of farmers' loans should be converted into grants • Government should repay the farmers' loan installment paid during COVID-19 pandemic 	Establish an emergency fund to use in difficult situations, such as the COVID-19 pandemic, flood and other disasters	Assign separate contact persons to orient and assist smallholder farmers in preparation of loan documents.	<ul style="list-style-type: none"> • Waive loan interest during the lockdown • Provide assistance to enable farmers to purchase vegetable seeds and sell their produce in urban markets • Provide relief packages, especially for those not able to market their produce in 2020
Philippines	Consider loan restructuring	-	<ul style="list-style-type: none"> • Accept online loan applications submitted through accessible and approachable hotline agents • Disseminate basic information on credit programs and other services through social media platforms (e.g., Facebook) • Use the ATM in loan transactions for easy access to cash during the pandemic 	<ul style="list-style-type: none"> • Government to ensure farmers' safety by providing protective masks during training courses • Farmers to be gathered in one venue and provided free transport during training to minimize costs, control mobility, and reduce exposure to COVID-19



On top of these recommendations, extra efforts should be undertaken to provide equipment, improve internet connectivity and build capacities of small farmers in using digital technology, for smallholder farmers to truly benefit from the credit programs.

The Way Forward

The Bangladesh study points out that agriculture is the oldest and most widely-practiced occupation in human society. It has been the backbone of economic development since the dawn of civilization.

Thus, development of the agriculture sector is paramount and not merely because it provides food, fodder, and other agro-products to a growing population. More important, agriculture ensures a strong raw material base for industry and services, the two other major sectors of the economy.

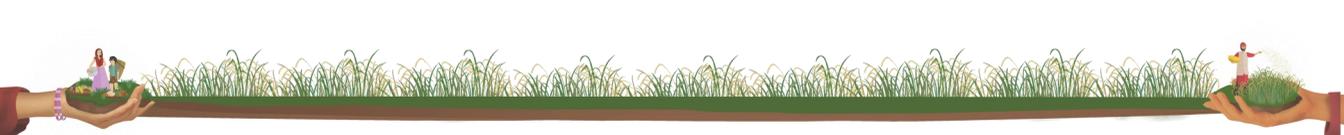
Improving the overall implementation of the public agricultural credit programs in the five countries requires a culture of good governance in program management and administration so that good policies can be implemented well and the poor and marginal farmers, the primary targets of these programs, can access these in a comfortable fashion.

To achieve the above, the programs' policies and implementation strategies should not only be based on grassroots realities. Program management need to be properly trained so that they are well aware of the overall context and specific situations of smallholder farmers. In this regard, it is essential that socially-conscious women credit officers are assigned in the field-level offices of the programs.

While credit is an essential factor towards improving the livelihoods of smallholders, truly-responsive credit programs need to be implemented with – and not separately – the other financial and non-financial services that address the wider socioeconomic needs of small farmers.

And to be effective, efficient and reach a wider clientele, these holistic programs warrant strong partnerships between various stakeholders including governments, NGOs and CSOs, cooperatives and farmers organizations, and the private sector.

Farmers' access to these programs must continue to be enhanced. To achieve this, implementing agencies should continue to explore alternative collateral mechanisms to enable more landless farmers to avail of credit facilities. At the same time, the programs should continue to heed the call of many farmers for simpler procedures to access financial services. Greater incentives must be also put in place to support organic farming and the programs must explicitly target more women farmers.



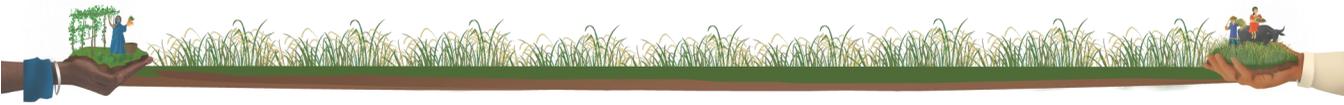
Capacity-building for smallholders on the ins-and-outs of financial services in this digital age should also be emphasized. The COVID-19 pandemic has forced the greater uptake of digital tools for financial services; while these may make transactions more convenient, they may also render these financial services to be inaccessible to small farmers. Greater uptake of financial services will also require improvements in network and internet infrastructure in the countryside.

Program management and clients must recognize that COVID-19 is here to stay. Thus, key stakeholders of each country program must reflect, in a communal fashion, on how best to address the pandemic in terms of each program's internal and external policies and procedures. In particular, risk factors related to natural disasters and the effects of climate change must be considered in program implementation.

Finally, CSOs should continue to ensure that the voices of smallholders are heard in discussions on credit and other support services for small farmers. This entails improved monitoring and assessment frameworks, production of good quality knowledge products, and engagement in policy debates towards the formulation or reform of policies and programs. ■

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Forced out: Crop loan blight marginalizes rice growers

Case Study on Government Credit Production Assistance to Small Boro Paddy Farmers in Bangladesh

Introduction

Context

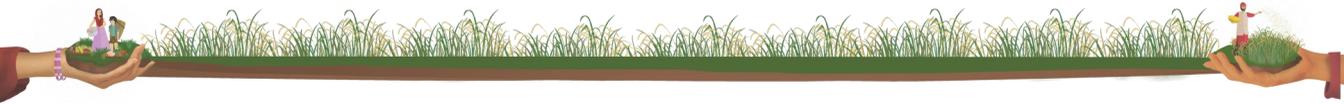
As the oldest and most widely practiced occupation in human society, agriculture has been the backbone of economic development since the dawn of civilization. The development of the agriculture sector is of paramount importance, not merely because it provides food, fodder, and other agro-products to a growing population, but also because it ensures a strong raw material base for industry as well as the service sector – two other major sectors of the economy apart from agriculture. This is true also in Bangladesh, a country in South Asia which is still a rural nation with a large rural population that is – directly or indirectly – heavily dependent on agriculture (Sarker, 2006).

Overview of agriculture sector

Agriculture has played a remarkable role in the economic development of Bangladesh in terms of production, employment, and export generation, among others (Suhrawardy, 2013). Agriculture is the basic sector of the country in providing employment (about 40 percent) and GDP contribution (about 13 percent) (BBS, 2018; BBS, 2019). The commercialization of agriculture has contributed significantly to the trade-commerce-industry of the country, though it has many adverse effects on the living and livelihood of farmers, especially the poor and marginalized peasant communities (Barkat, et. al., 2017).

Agriculture support systems or extension works play an important role in the development of agriculture in the country (Siddiqui, 1998). The Department of Agricultural Extension (DAE) is the largest extension service provider in Bangladesh. The mission of the DAE is to provide efficient, effective, decentralized, location-specific, demand-responsive, and integrated extension services to all categories of farmers in accessing and utilizing better know-how to increase sustainable and profitable crop production (DAE, 2016). Hence, the support system, at least in black and white, is decentralized – up to the union level (lowest local government institution); though in practice, it suffers from various limitations (Afrad, Wadud and Babu, 2019).

Access to land or securing tenure rights to land is important for land-dependent vulnerable communities in Bangladesh to overcome poverty (Suhrawardy, et al.,



2020). However, agriculture in Bangladesh abounds with smallholder farmers, most of whom are family farmers (Barkat, et al., 2021). The country has an official definition of smallholder farmers or farm households: *Farm households having land up to 150 decimals¹ are considered smallholder farm households.*

There is no “direct and comprehensive” land or agriculture reform policy in the country until now. The country has a two-decade-old land use policy called the National Land Use Policy 2001 (Barkat, et al., 2021). Its comprehensiveness is questioned as some new land aspects have emerged² in the last two decades and some old aspects³ have gotten new dimensions during the period. Land for agriculture or food security remains unprotected with rising commercial and non-agricultural use of land (Barkat, et al., 2015). To protect agricultural land and the good use of land, the “Land Reform Law 2014” has been drafted and placed on the Land Ministry website for opinions (MoL, 2016).

Some other policies that have an impact on land or agrarian reform include the National Agriculture Policy 2018, the Agricultural Khas Land Management and Settlement Policy 1997, the Non-agricultural Khas Land Management and Settlement Policy 1995, the State Acquisition and Tenancy Act 1950, the National Food Policy 2006, the National Jute Policy 2011, the Bio-Safety Rules 2012, the Bangladesh Water Act 2013, the Safe Food Act 2013, the National Nutrition Policy 2015, the Fertilizer Management Act 2006 (Amended in 2018), the Integrated Small Cultivation Act 2017, the Ground Water Management Act 2018, among others.

Organic farming is getting popular in Bangladesh, albeit slowly. The country has a policy on sustainable farming called the “Organic Farming Policy 2018.” Few public and private projects and programs are there to foster the implementation of the 2018 policy.

Government projects and programs directed towards the benefit of smallholder farmers are usually carried out under the Ministry of Agriculture (MoA). In Fiscal Year (FY) 2020 to 2021, MoA has implemented ten projects (of BDT 471.51 crore or USD 55.07 million) that have a direct impact on smallholder family farmers (Barkat, et al., 2021).

Climate change has exerted adverse effects on agriculture in Bangladesh. Salinity, drought, untimely heavy showers, and recurrent floods are some of major manifestations of climate change which affect the agriculture sector of the country (Barkat, et al., 2015).

¹One decimal is about 40.5 square meters.

²For example, elevation of a large plot of land in the southern region of the country

³Salinity, soil erosion, etc.

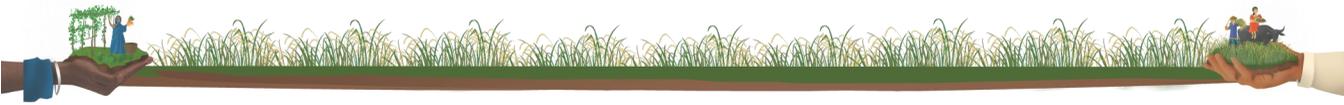


Table 1. Potential impacts of climate change on agricultural food systems

Impact source	Impact on food system assets	Impact on food system activities
A. CO ₂ fertilization effects	Production assets	Producing Food
B. Increase in global mean temperatures		
C1. Gradual changes in precipitation (increase in the frequency, duration, and intensity of dry spells and droughts)		
C2. Gradual changes in precipitation (changes in timing, location, and amounts of rainfall)		
D. Increase in the frequency and intensity of extreme weather events (increase in annual occurrence of high winds, heavy rains, storm surges, flash floods, and rising water levels associated with tornadoes, tropical storms, and prolonged heavy rains)		
E. Greater weather variability		

Source: FAO and IDWG (2008) in Barkat, Suhrawardy & Osman (2015)

A situationer on smallholder farmers and their sources of credit

Over 45 percent of total households (about 35.5 million) in Bangladesh are farming households (about 16.6 million households operate at least five decimals of cultivated area) (BBS, 2019). Most of these households are marginal and smallholder farmers. A 2016 CGAP (Consultative Group to Assist the Poor) working paper on a national survey on smallholder households in Bangladesh finds that there is heavy dependence on agricultural income among smallholder households; they are vulnerable to weather-related events that threaten their agricultural activities, and typically they have few, if any, resources at their disposal when these events occur (Anderson, et al., 2016). A majority of smallholder farmers are not financially included; most of the older smallholders are committed to farming and need information and tools to plan their agricultural and financial lives.

According to the same survey (Anderson, et al., 2016), the types of ownership and/or possession of land by the smallholders are varied. Over 50 percent of the smallholder farmers possess a lease or certificate, with around one-tenth of them either possessing their land according to customary law (12 percent) or having communal land (11 percent). They own or possess a small amount of land. Around 90 percent of them own or rent less than one hectare of land and nearly a one-tenth own between one and two hectares.

More than half of Bangladeshi smallholders go for multi-cropping for both consumption and selling. About one-fourth of them practice either triple-cropping (12 percent) or quadruple-cropping (12 percent). Paddy is the most important crop to smallholders. Other crops include jute, potato, onion, garlic, pulse, etc.



Table 2. Cropping season of some major crops cultivated by the smallholder farm households

Crop	Cropping Season	
	Starting	Harvesting
Boro (HYV/High breed)	Mid-October	End of June
Boro (Local)	Beginning of October	End of June
Potato (HYV)	Beginning of September	End of March
Jute	Mid-February	Mid-September
Onion	Beginning of November	End of May
Garlic	Beginning of November	End of May
Pulse (Mosur)	Beginning of October	Mid-March

Source: BB (2020)

Most of the smallholder farmers in rural Bangladesh need credit but do not have comfortable access to formal loan sources (Khondker, et al., 2013). Major sources of credit for smallholder farmers include NGOs, microfinance institutions (MFIs), cooperatives/*samity*, and various non-institutional or personal avenues like *mahajans*, friends or relatives, and *dadan* businessmen.

They also get some loans from different government institutions like the Rural Development Board, Department of Youth Development, Department of Women Affairs, Department of Social Services, etc. They hardly get loans from private and public commercial or specialized banks.

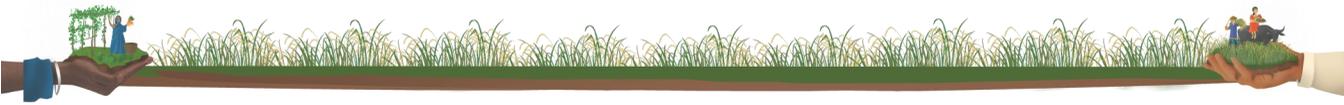
The research study

- **Statement of the problem**

Agricultural credit support to smallholder farmers in Bangladesh is inadequate. Access to credit of smallholder farmers is constrained by various institutional and non-institutional factors. The credit program under the study does not seem to contribute to the holistic development of smallholders to a larger extent. It addresses needs of smallholder farmers to a limited extent. The program is not that much proactive in targeting women smallholders and farmers practicing organic and sustainable farming. The policies and procedures of the credit program do not seem to be aligned with the capacities of smallholder farmers to the fuller extent. The policies and procedures are not flexible and considerate enough, given the situation of smallholder farmers.

- **Objectives of the study**

This country case study on public agricultural production credit assistance in Bangladesh has been conducted in pursuit of two specific objectives:



- a. Analyze the relevance, appropriateness, accessibility, and usefulness of an existing government production credit assistance (Crop Loan of Bangladesh Krishi Bank in this regard) for Boro paddy smallholder farmers; and,
- b. Propose recommendations to government lending institutions to improve smallholders' access to and utilization of the credit program.

● Methodology

The study has attempted to explore the amount of credit (with conditions) used by the smallholder Boro farmers, the farmers' credit needs, unmet credit demand, access barriers, favorable credit terms and conditions in two districts (first one in the northern and second one in the central region of the country).⁴ For this reason, two focus group discussions (FGDs) have been conducted. To supplement the findings of the FGDs, a few key informant interviews (KIIs) with the credit officials of Bangladesh Krishi Bank (BKB) have also been conducted.

The study has selected a credit program termed as the "Crop Loan" under BKB, a specialized government bank, and started inquiry into the following: the objective/s of the program, the coverage of program, its clientele (target and actual), the types and amounts of loans and other financial assistance, support services, repayment rates, sanctions for non-repayment of loans, credit channels, program management and staffing, strengths and challenges.

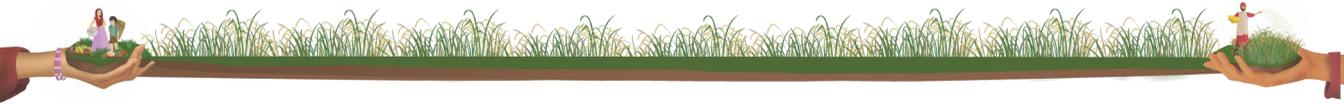
Extensive literature review, web navigation, and newspaper scanning were conducted apart from the FGDs and KIIs. However, the small number of FGDs and KIIs is one of the limitations of the study.

● Overview of selected farmers and crop

Around one crore or 10 million agriculture households are engaged in Boro paddy production (9.29 million in 2019); about ten percent of those households are headed by females. Most of these farmer households own less than half a hectare of land (Ahmed and Bakhtiar, 2020). They are heavily dependent on the land rental market for operating their holdings. The average number of household members in the family is about five. They use green revolution (GR) technology, such as high-yielding variety (HYV) seed, chemical fertilizer, pesticide, mechanized irrigation, and harvesting equipment. Some of them use organic farming technology. Most of the Boro farmers produce around one maund (around 37 kilograms) of paddy per decimal of land.

Paddy is the main food grain of Bangladesh. The country is the fourth largest paddy producer in the world. The average production of paddy per hectare in Bangladesh is 4.2 tons (Julkarnain, n.d.). Based on weather and climate, three seasons of paddy production can be observed in the country, namely: Aaush, Aman, and Boro. Boro paddy or spring-paddy (*bashontic*) is a winter (*rob*) crop. Boro season begins as soon as Aman season ends. Planting of the paddy starts from the Bengali month of

⁴Three districts were selected primarily for FGDs. Later, the Southern district (Patuakhali) was dropped due to the deteriorating situation with the COVID-19 pandemic.



Kartik (October to November) and continues until the month of *Boishakh-Joistha* (April to June). It lasts from early autumn to mid-summer. Rainfall is generally low when Boro is grown, so this type of paddy is largely dependent on irrigation. Twenty-seven varieties of Boro paddy have been developed in the Bangladesh Rice Research Institute (BRRI) so far.

The BRRI-28 and BRRI-29 varieties cover about one-fourth of the total production of staple food grains in the country that are planted during Boro season (Julkarnain, n.d.). The biggest breakthrough in terms of innovation came after the release of these two varieties in 1994. In areas where there is a demand for advanced varieties during the Boro season or when transplanted, Aaush or jute is cultivated after the Boro, the BRRI-28 variety is especially suitable. In areas where transplanted, Aman is cultivated after the Boro crop or only Boro is cultivated as a single crop, BRRI-29 is suitable. Production of BRRI-28 yields 5.5 to six tons per hectare. Production of BRRI-29 yields six to eight tons per hectare. Now, the Boro season provides half of the country's total paddy. In the FY 2018 to 2019, the country produced about 36.4 million tons of rice, where Boro paddy contributed about 54 percent of the total.

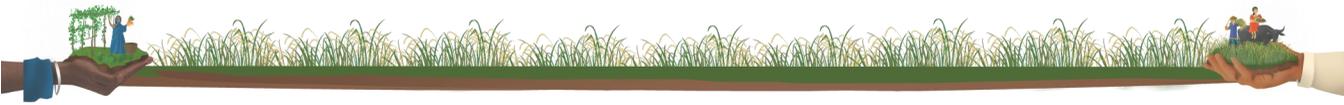
At present, about 60 percent of the paddy cultivated in the Boro season is of either the BRRI-28 or BRRI-29 variety. Prior to this, rain-fed Aman paddy was predominant in the total paddy production of the country. But after the invention of these two, with the increase in irrigation facilities, there was a big change in the Boro cultivation (Julkarnain, n.d.).

Dependence on Boro season has increased. BRRI-28 and BRRI-29 have been converted into two mega varieties as the alternative varieties have not been available for a long time. The need for a balanced fertilizer for the good production of Boro paddy is undeniable. Irrigation is one of the major sources of expenditures in Boro cultivation. The continuation of rice production in the last few decades has brought relief to the country's food security, which is largely due to the contribution of Boro paddy (Roy, 2021).

Role of credit in agricultural development of smallholder farmers

Introduction

The word credit is derived from the Latin word "*creditum*" which means "that which has been entrusted" by one person or institution to another person or institution for a particular period of time for use with the belief that it will be returned (Islam, 1982). The money that is borrowed by farmers to meet their production requirements as well as their consumption needs is termed as agricultural credit (Sarker, 2006). Agricultural credit is among the most indispensable production inputs in agricultural development. In this regard, Sir Frederick Nicholson had noted in his report on "Land and Agricultural Banks" (1895) that, "the lesson of universal history from Rome to Scotland is that an essential component of agriculture is credit. Neither the condition of the country nor the position of agriculture affects the one great fact that agriculturists must borrow" (Akhunji, 1982).



For the purpose of this paper, agrifinance, in its narrow sense, indicates financing for cropping (storage, transport, marketing are not usually included). In a broader sense, agrifinance includes finance for horticulture, poultry and livestock rearing, fisheries, among others.

Role of credit in agricultural development of Bangladesh

Agricultural credit is an integral part of the modernization of agriculture, production, and marketing of agricultural commodities and the improvement of farmers' living and livelihoods (Sarker, 2006). In comparison to any other sector, agriculture depends more on credit primarily because of seasonal variations in farmers' returns. Access to credit or participation in credit programs has a positive impact on agricultural production through financing input purchases, wages, and sales processes.

Availing credit has a significant positive effect on total household crop production, in comparison to an otherwise similar household that does not receive credit (Khondker, et al., 2013). Access to credit has given an opportunity to small and marginal farmers to plough their small plot of land and has also made the lease of additional land possible and in this way enables them to augment household production and income.

As there is no unmixed blessing in the world, credit becomes a bane instead of a boon for smallholder farmers in some cases. When smallholder farmers suffer from crop loss or less-cropping, they run the risk of defaulting on loans. Exorbitant interest rates and unfavorable repayment conditions for credit, among others, cause harm to smallholder farmers. Having debt burdens and falling into debt traps are some ill consequences of a credit culture.

In rural Bangladesh many formal, semi-formal, and informal institutions and agencies are involved directly or indirectly in the provision of agricultural credit (Khondker, et al., 2013). Bank and non-bank financial institutions (especially NGOs and cooperatives) play a leading role in financing agricultural loans. Banks currently involved in disbursement of agricultural credit are as follows: Bangladesh Bank (BB); nationalized commercial banks (NCBs), i.e., Sonali Bank Ltd, Janata Bank Ltd, Agrani Bank Ltd, etc.; national specialized banks (NSBs), i.e., Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RAKUB); and, local and foreign private commercial banks (PCBs).

A total of 55 banks – two NSBs, six NCBs, nine foreign PCBs, and 38 local PCBs – are engaged in agricultural credit disbursement (for crop and horticulture, fisheries, livestock and poultry) in FY 2020 to 2021 (BB, 2020).

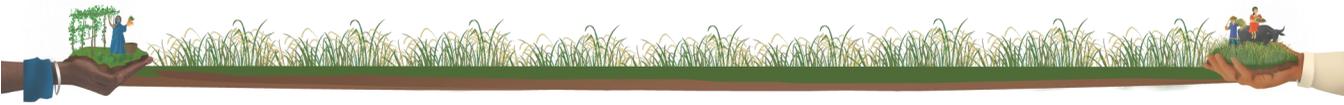
Policy environment on government agricultural credit

BB, the Central Bank of Bangladesh, formulates on behalf of government agricultural credit policies at the national level and provides institutional support for

the implementation of those policies. On an annual basis, the Agricultural Loan Department of BB issues detailed policy guidelines termed as the “Agricultural and Rural Credit Policy and Programme” for the proper disbursement, utilization, and recovery of agricultural credit through NCBs, NSBs, and PCBs (BB, 2020). Besides this aggregate policy, sector-specific policies are there which emphasize agricultural production credit assistance for this particular sector, for example, the National Agriculture Policy 2018 for smallholder farmers; the Organic Farming Policy 2018 for organic and sustainable farming; the National Women Development Policy 2011 for women; and, the Bangladesh Climate Change Strategy and Action Plan 2008 for climate change (Box 1).

Box 1. Sector-specific policies on agricultural production credit assistance

<p>National Women Development Policy 2011 (Source: https://mowca.portal.gov.bd/sites/default/files/files/mowca.portal.gov.bd/policies/64238d39_0ecd_4a56_b00c_b834cc54f88d/National-Women-Policy-2011English.pdf)</p>	
<p>Section 25. Section 25.2.</p>	<p><i>Economic Empowerment of Women</i> To give women the rights to wealth and resources earned through income, succession, loan/credit, land, and market management</p>
<p>Section 26. Section 26.4.</p>	<p><i>Employment of Women</i> To undertake programs for imparting special training and credit facilities for women entrepreneurs</p>
<p>Section 31. Section 31.4.</p>	<p><i>Women and Farming</i> To take steps to ensure the farming women have equal opportunity in having agricultural inputs like fertilizer, seed, farmer's card, and credit facilities, etc.</p>
<p>National Agriculture Policy 2018 (Source: https://bangladeshbiosafety.org/wp-content/uploads/2021/03/National-Agriculture-Policy_2018_English.pdf)</p>	
<p>Section 5.6 Section 5.6.1 Section 5.6.2</p>	<p>Small scale irrigation ownership and agricultural credit Encourage joint ownership of irrigation equipment Take measures to provide crop and seasonal credit to increase interest in farming of small and medium farmers</p>
<p>Section 5.6.3</p>	<p>Take measures to waive interest for farmers affected by disasters and arrange for providing them new credit or production support</p>
<p>Section 15.3 Section 15.3.1</p>	<p>Incentives, Agricultural Rehabilitation, and Market Development Increase the productivity of crops, improve post-harvest technology, sustainable natural resource management, and provide financial assistance or loan for the development for the above activities</p>
<p>Section 15.3.2</p>	<p>Undertake special efforts to provide loans, production support, and agricultural rehabilitation to the poor and marginal farmers</p>
<p>National Organic Farming Policy 2016 (Sources: https://moa.gov.bd/sites/default/files/files/moa.portal.gov.bd/policies/3c9ad962_d98e_40be_9a87_65b31ff0f065/act_2016_19-04-2017.pdf https://moa.gov.bd/site/view/policies/%E0%A6%A8%E0%A7%80%E0%A6%A4%E0%A6%BF%E0%A6%AE%E0%A6%BE%E0%A6%B2%E0%A6%BE-)</p>	
<p>Section 3.11.1</p>	<p>The benefits applicable to the farmers in the “Agricultural Marketing” sub-sector in the National Agricultural Policy will also be considered applicable to the organic farmers</p>
<p>Section 3.11.2</p>	<p>Necessary steps will be taken to provide loans on easy terms/ conditions from financial institutions for organic fertilizers, production of organic pesticides, and organic agriculture</p>
<p>Bangladesh Climate Change Strategy and Action Plan 2009 (Source: https://www.iucn.org/downloads/bangladesh_climate_change_strategy_and_action_plan_2009.pdf)</p>	
<p>Climate change action plan (54-58 point) P. 31</p>	<p>Financing the climate change action plan</p>



In the Agricultural and Rural Credit Policy and Programme for FY 2020 to 2021, a special policy (6.19.6) on credit assistance for smallholder farmers states that priority should be given to landless farmers (having land less than 0.494 acre or 0.2 hectare), small and marginal farmers (having land of between 0.494 acre to 2.47 acres (0.2 hectare to one hectare), and sharecroppers (those who cultivate others' land and have a maximum of one acre or 0.4 hectare of land). With finance from JICA (Japan International Cooperation Agency), BB has been implementing the “Small and Marginal Sized Farmers Agricultural Productivity Improvement and Diversification Financing Project” (SMAP). Government has some other programs like “Amar Bari Amar Khamar” (My House My Farm), “Palli Karma-Sahayak Foundation” (PKSF), and “Social Development Foundation” (SDF) on credit assistance for smallholder farmers.



As a component of organic and sustainable farming, government has a special policy in the ongoing Agricultural and Rural Credit Policy. The policy (6.07) states that banks and financing institutions will support organic fertilizer initiatives like vermicomposting. For encouraging commercial production of vermicompost, the Sustainable Finance Department of BB refinances original bank financing.

A special policy (6.19.16) in the Agricultural and Rural Credit Policy and Programme for FY 2020 to 2021 states that women can be encouraged in cropping, small scale processing, small agro-trades, gardening, nursery, post-harvest activities, seed production and preservation, and poultry and livestock rearing through loan financing.

Government has taken into account the effects of climate change in the formulation of its credit program. A special policy (14.0) in the last Agricultural & Rural Credit Policy encourages climate financing issues in formal agricultural credit programs.

Government credit program for smallholder farmers

Introduction

Access to credit from BKB has exerted many positive impacts on the production, employment, income, and food security, among others, of rural households since its inception (Uddin, 2010). But the positive outcome has not been even and equal across households. Smallholder farm households cannot reap the maximum benefits of BKB credit as there are ills and irregularities in the process of loan sanctioning (Box 2).



Box 2. Fraud and bribery towards farmers in the process of accessing BKB loan

Azhar Sikder recently took a loan of BDT 220,000 (USD 2,588) from BKB's branch in DM Khali union of Vedharganj *upazila* in Shariatpur district for banana cultivation by showing fake documents (banana cultivation did not exist in reality). Akhter Hossain, a farmer from the same area, alleged that he paid a bribe of BDT 12,000 (USD 141) to take a loan of BDT 150,000 (USD 1,765). It has also been alleged that another recipient named Shahidul Sardar paid a bribe of BDT 10,000 (USD 117) to the bank staff to take a loan of BDT 50,000 (USD 585). Dadan Miah, a farmer from DM Khali village, complained that it takes a bribe of BDT 10,000 to 12,000 (USD 117 to 141) to take a loan of BDT 100,000 (USD 1,170).

Poor farmers are being harassed by intermediaries and bank officials step by step in the loan sanction process. There are allegations that ward Awami League (the incumbent political party) President Farooq Sarkar lobbied the farmers of Taltola village in DM Khali union to get loans. For this, he has his own office in the village market. To the locals it is known as the office of Krishi Bank. Farooq Sarkar claimed that the people of the village do not understand the documents, so he acts to correct loan-related documents. Mohammad Hossain, the manager of DM Khali Union Krishi bank branch, has denied allegations of irregularities, saying there were many intermediaries here a few years ago. Now, no such person is allowed to enter their bank.

Source: Rahman (2021)

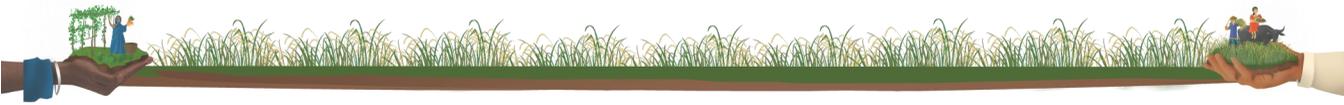
Rationale for choice of crop loan of BKB

The BKB Crop Loan Program has been chosen for study because it is the largest government credit program in the crop sector of Bangladesh. Though some other NCBs and PCBs operate in crop financing, the area, population, and portfolio coverage of BKB are much more comprehensive than other institutions. In FY 2020 to 2021, the total target of agricultural loan disbursement for 55 banks is BDT 26,292 crore (USD 3.1 billion); while the target of BKB alone is BDT 6,000 crore or USD 711 million (about 23 percent of the total) (BB, 2020). At least 60 percent of this (BDT 3,600 crore or USD 427 million) is expected to be distributed under the BKB Crop Loan. However, it needs to be mentioned here that there is no exclusive credit program for smallholder Boro paddy farmers in Bangladesh.

Description of crop loan of BKB

- **Objectives of program:** The core objective of BKB Crop Loan is to provide loan facilities for achieving self-sufficiency in food production and strengthening the rural economy. In the KIIs, BKB officials have mentioned that one of the key objectives of the program is to lend to “loan-seeking” smallholders who are at risk of leaving or limiting cultivation due to fund crisis.
- **Coverage of program:** The BKB credit program is not a part of any larger assistance package to smallholder farmers. Though it does not cover the whole country, it is not a regional program either. A part of the northern region of the country is covered by RAKUB,⁵ another national specialized bank. About three-fourths of the country's crop loans is covered by the BKB Crop Loan Program. The credit program covers all seasonal crops, including Boro paddy.

⁵ However, in Rajshahi division BKB has branch.



- **Clientele (target and actual):** Both landowners and sharecroppers are normal target groups for crop loans. According to a 2015 circular (BKB, 2015), the targeted clients of this credit program are as follows:
 - a. farmers who are actively involved in cropping throughout the year;
 - b. farmers who have been taking loans for a long time;
 - c. farmers having a bank account of BDT 10⁶ (USD 0.12);
 - d. farmers having a “farmer’s card”;⁷
 - e. landless farmers; and,
 - f. sharecroppers.

Though marginal farmers are eligible for the crop loan on paper, in reality, a portion of them do not have access to the loan. Rather, in FGDs, some of them shared their bad experiences (misconduct of BKB officials, bribing practices, etc.) when approaching BKB for a crop loan.

The government has no budgetary allocation for this credit program. As part of its incentive package, the government provides interest compensation (five percent due to the declining rate from nine percent to four percent) to the bank.

In most of the cases, actual clients of the credit program are the same as those who were initially targeted. The reasons behind the difference between the targeted and actual clients are as follows:

- Some original clients do not or cannot continue for their own reasons – they leave farming or go for farming with other sources of financing, including self-finance; and,
- The bank cannot satisfy the increasing demand of the clients – they want bigger amounts of loan with a lower interest rate and other fringe benefits.

In the beginning of the credit year, the BKB officials communicate with existing and old “good” clients so that they continue with the crop loan program. Whether the smallholders are among the so-called “good” clients is an important question. In the FGDs, very few smallholders were found to be continuous credit receivers from BKB. However, for targeting the new credit clients, the BKB officials claimed to do the following:

- They go to villages or communities to identify potential clients;
- They communicate with local agricultural officers for collecting a list of “real” farmers;
- They conduct household surveys in the remote areas; and,
- They disseminate information materials about the crop loan program.

Evidence of the above-mentioned activities is rarely supported by the FGD participants. Earlier in the first half of the last decade, the BKB officials distributed

⁶ A special bank account provision for the poor smallholder farmers.

⁷ A type of identity card for the farmers against which various government supports are provided.



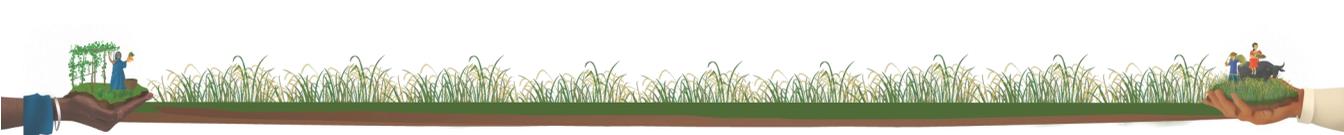
loans in some open places like local markets, gatherings, etc. They did not continue this later on.

- **Credit channels:** The BKB credit program provides loans to clients through their branches (more than 1,000 throughout the country; a small number in greater Rajshahi region, where another regional public agricultural bank, RAKUB, operates). However, there are some outside actors like *dalals* (intermediaries) committing notorious acts in the channel (as noted in Box 2).
- **Program management and staffing:** In the local branches of BKB, the credit section is supervised by a branch manager. The person in charge of the credit section works with one or more credit officials who are directly involved with identifying potential farmer-borrowers.

The performance of the program management and staff is average; some of the officials are not welcoming to marginal farmers, especially indigenous ones. As there is a shortage of human resources, newly recruited young officers are sent to the field in some cases. Because of their inexperience, they could not reach the real marginal farmers.

Just after the independence of the country, BKB was a service-oriented bank. In the 1990s, it turned into a profit-oriented bank. According to the key informants, the evolution of the vision and mission of the bank may have an impact on the services provided to the clients. They have also mentioned about BKB officials' dissatisfaction of their compensation package, which may be a factor in this regard.

- **Strengths of the crop loan program:** Lower interest rate is the major strength of the BKB Crop Loan, followed by mass availability of the credit line. The strengths of the crop loan program emanate from the strengths and opportunities of the entire BKB credit program (Box 3).
- **Challenges of the crop loan program:** Bribes and hassles play as access barriers to the crop loan of BKB. Poor and marginal smallholder farmers cannot combat these bad governance elements. Such challenges stem from the weaknesses and threats of the entire BKB credit program (Box 3).
- **Types and amounts of loans and other financial assistance:** The BKB Crop Loan is disbursed as per norms set by Bangladesh Bank. The loan is sanctioned as a short-term loan on an annual basis. The interest rate for this loan was nine percent before the coronavirus pandemic. The rate was reduced to four percent recently to offset the losses suffered by crop producers due to the pandemic. However, this lower interest rate cannot give comfort to farmers when bribe money is associated with loan sanctions. Usually, no collateral is required up to cultivation of five acres (approximately two hectares) of land, according to the BB agricultural credit policy; in reality, many marginal farmers are refused the loan in the pretext of lack of land. Short-term crop loans (six to 18 months) are repaid in installments.



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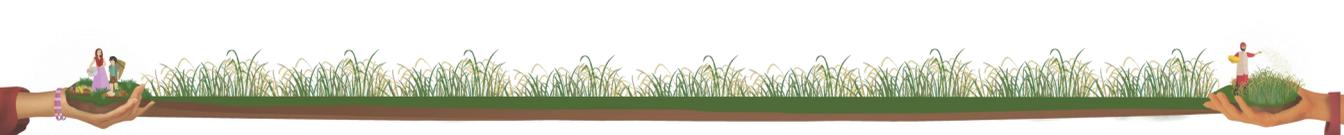
Aside from loans, the crop loan program does not provide any other form of financial assistance. However, BKB officials have claimed that their credit officials give various financial advice to the farmers.

- **Support services:** Support services like training or supplementary input support are not adhered to by the crop loan program. As mentioned earlier, financial advice is provided to the loan recipients. The BKB officials have noted another loan package for agriculture equipment, but this package does not give any technical support to farmers under the crop loan. They have not deployed any experts to give training to the smallholder farmers for building or enhancing their capacity on the proper utilization of the crop loan. Farmers in the FGDs claimed that BKB officials hardly visit their farm fields.
- **Repayment rates:** Repayment of the loan is made upon harvest. Under the crop loan program, the amount of the loan (principal amount) varies according to the production plan of the farmers. However, the mode of repayment is the same across loan amounts.

As mentioned, about USD 427 million is distributed under the BKB Crop Loan Program in FY 2020 to 2021, of which about 90 percent (according to the key informants who are BKB officials) has been repaid. Hence, the overall repayment of loans of the credit program is about USD 384 million.

When farmer-borrowers do not or cannot pay their loans, their loan is rescheduled with a higher interest rate. According to the contact, the loan defaulter is supposed to undergo a certificate case, but BKB official officials claimed that they usually do not file a lawsuit against the defaulter. Rather, constant communication is made so that they can repay their loan immediately.





Box 3. Strengths, Opportunities, Challenges and Threats of BKB Loan Program

Strengths:

Extensive operational set-up: BKB operates through 1,038 branches all over the country. The strength of the BKB agricultural credit program is its presence in 50 districts, nine city corporations, and 607 unions of the country.

Well-established infrastructure: BKB has been trying to reach the rural community of the country since its inception. Its well-established infrastructure is manifested in seven corporate, 239 city, and 792 rural branches throughout the country. Infrastructure capability has made BKB one of the largest specialized banks in the country. BKB has also established 63 field level audit offices (nine at divisional and 54 at regional levels) as a part of its internal control, integrated compliance system as well as for smooth operations.

Veteran human resources: As one of the oldest specialized banks, BKB has experienced human resources despite inadequate manpower in some cases.

Lower interest rate: BKB extends its agricultural loan with comparatively lower interest rate.

Opportunities:

- BKB has been the most reliable formal source of agricultural credit.
- BKB, being a key specialized bank, has the privilege of being patronized by the government.
- With the increasing capital, BKB is characterized by plenty of programs targeting the rural community which will be extended further by public policy and interventions.
- BKB has wide social acceptance among the rural communities due to its diversified programs, government support, lower interest rate, and fastest-growing demand for agricultural credit.

Challenges:

- *Lengthy and intricate institutional procedure:* Long and complex institutional procedures are the vital drawbacks faced by farmers in securing agricultural credit from BKB.
- *Shortage of well-timed credit facility:* Lengthy and delayed loan approval processes act as major flaws in BKB's agricultural credit program.
- *Strong need for collateral:* The strict requirement for collateral in institutional sources like BKB in turn enforces plenty of formalities on credit seekers that make them inclined to take a loan from semi-institutional and non-institutional sources.
- *Poor institutional capacity:* Even though BKB has many branches in the rural areas, these are still inadequate against the requirement. Moreover, there are deficiencies in manpower, which often make the bank limit its operations.

Threats:

- BKB credit is supposed to be allocated according to the relative efficiency of the cultivator rather than the economic and political supremacy of credit recipients.
- The prevalence of brokers or unscrupulous bank officials results in higher non-interest costs in loan transactions for the borrowers.
- The higher non-interest cost of BKB credit for the small farmers acts as a hindrance to the development of their productive forces.

Source: Deb et al. (2020)

Impact of COVID-19 pandemic on crop loan program

Farmers could avail of a reduced interest rate (from nine percent to four percent) under the crop loan program as a COVID-19 pandemic incentive.



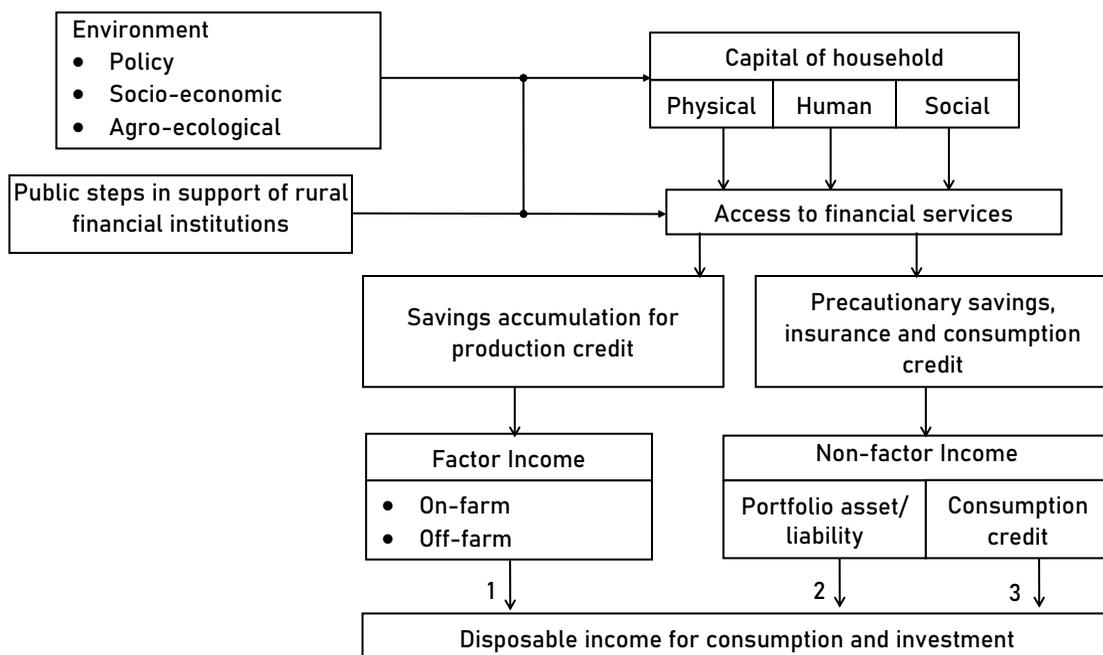
During the pandemic, BKB has taken steps according to the direction of the BB. The bank will disburse loans at a four-percent interest rate to the farmer against their target set by BB from their own sources as in previous years for the cultivation of cereals, cash crops, vegetables, and tubers, including paddy and wheat mentioned in the Agriculture and Rural Credit Policies and Programs. In this case, the bank will get the recharge facility of five percent interest rate according to their actual interest loss. The bank will have to pay compensation against loans disbursed at concessional interest rates. The bank participating in the disbursement of loans under the scheme will take all necessary steps to ensure the effective utilization of the loans given at concessional interest rates in favor of the actual farmers for the crops and crops mentioned in the scheme (BKB, 2020).

Credit needs of smallholder farmers

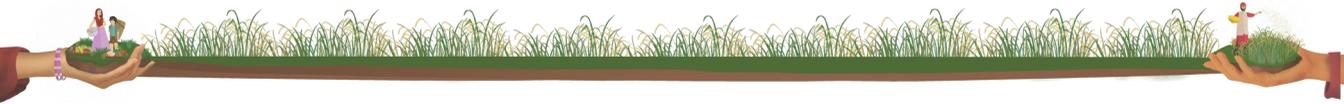
Introduction

As a commodity and/or service, agriculture credit has both demand side and supply side factors and actors (the latter are discussed in the preceding chapter). As a key demand side actor, farm households demand agriculture credit for augmented household welfare. For example, Zeller et al. (1997) found inter-linkage between household access to credit and food security of the household – a most important criterion for smallholder farm household welfare (Diagram 1).

Diagram 1: Inter-linkage between access to credit and food security



Source: Zeller et al. (1997)



Credit requirements of smallholder farmers

The credit requirements of smallholder Boro farmers are numerous. They need credit for buying production inputs like seed, fertilizer, insecticide, pesticide, and, for hiring labor. They use credit for farm investment purposes such as irrigation. Credit is required for household consumption, in particular, for family needs while the crop is growing. They also need capital for trade and working capital to get the best prices for the crop upon harvest.

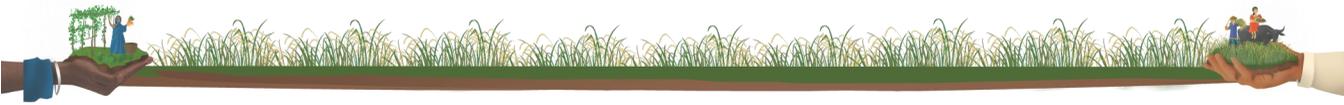
The crop loan of BKB addresses the production requirement of the Boro farmer. For an acre or 0.4 of a hectare (100-decimal) cultivation of Boro (hybrid), farmers get less than BDT 80,000 (about USD 940) covering the cost of fertilizer, seed, irrigation, insecticide, preparing the field for cultivation, wages, and land rent. The credit provision does not include two major costs – transportation and storage. It also excludes the “very much usual” price hike of inputs. FGD findings reveal that farmers have to cover 10 to 30 percent in additional costs from their own savings or other sources over the credit amount from BKB to complete production. KII with BKB officials also confirm the inadequacy of the crop loan.

The BKB credit program does not address all of the loan requirements of the smallholders. FGD findings disclose that very few smallholder farmers could draw the equilibrium of demand and supply of credit; a portion of these credit requirements remains unaddressed. Those who suffer from unmet credit demand either go for savings use, asset sale, and other sources of credit (mostly informal ones or microcredit with exorbitant interest rates) or leave a portion/all of the cultivation. The remaining portions are addressed by other government agencies or private sector credit players (moneylenders, traders, etc.).

Factors limiting the access of smallholder farmers to credit

Some factors limit the access of Boro paddy smallholder farmers to the crop loan. They are as follows:

- **Borrower eligibility requirements:** Any type (small, medium, or large) of Boro paddy farmer is supposed to be eligible to access the crop loan. But FGD findings expose that a significant portion of smallholder farmers could not get the loan due to lack of land or having insufficient amount of land (less than 100 decimals or 0.4 of a hectare) which is needed as collateral for credit. However, in the KIs, the BKB officials have denied that they refuse to extend the loan to the regular Boro paddy farmer even if s/he is landless or a sharecropper.
- **Credit procedures and processing time:** Complex procedures, such as filling out application forms (by illiterate farmers), roaming from one table to another, bribing, etc., and time loss discourage smallholder Boro farmers from opting for a crop loan. However, BKB officials in KIs have denied these ill-doings.
- **Credit requirements:** A portion of the credit requirement is not met by the BKB Crop Loan (as discussed earlier) which acts as a limiting factor for some farmers to participate in the credit program. As mentioned, BKB officials also admitted to the inadequacy of the credit amount.



- **Non-prioritization of women farmers:** Though women and other marginal groups like indigenous people have some access to the crop loan, they did not receive proper attention from the officials, let alone get prioritized. An indigenous woman, in an FGD, described mistreatments by bank officials when she approached them for a loan.
- **Non-prioritization of or support for organic farming:** Though organic farming is encouraged in the annual agriculture credit policy of Bangladesh Bank (BB, 2020), it is yet to be a focus in the grassroots level. BKB officials admit that they support organic farming in the same way they support conventional cultivation but do not prioritize it. They do not link clients with other agricultural departments that promote organic farming.

Special requirements of smallholders in the COVID-19 pandemic

Interest-free, hassle-free, timely, and adequate credit assistance is required for smallholder Boro farmers during this crisis period of the COVID-19 pandemic.

The BKB Crop Loan focuses only on production, and only partially. A full crop loan package, including complete coverage of production, storage, transport, and marketing, is warranted.

Conclusion and recommendations

Conclusion

Crop financing is integral in agriculture, but a portion of small farmers, who make up most of the 35.5 million agriculture farm households (around 45 percent of all households) in Bangladesh, do not have access to formal loan sources. A review of the BKB Crop Loan Program that smallholder Boro farmers could avail of has brought to light several barriers faced by prospective borrowers. Apart from irregularities in the conduct of loan assessments – such as bank officers taking bribes or refusing to grant credit to borrowers on the pretext that they do not have enough land – as well as the lukewarm reception of potential debtors by bank officers, the loan provision only partially covers production costs and does not include two major costs in agriculture: transportation and storage. The credit facility also does not prioritize marginalized groups such as women and indigenous farmers, or organic farming.

A section of smallholder Boro farmers cannot avail of the BKB Crop Loan. A section of the loan recipients cannot reap most of the benefits from the program. The failure of governance both in the BKB management and the national level plays key role in this exclusion and non-maximization of the credit program.



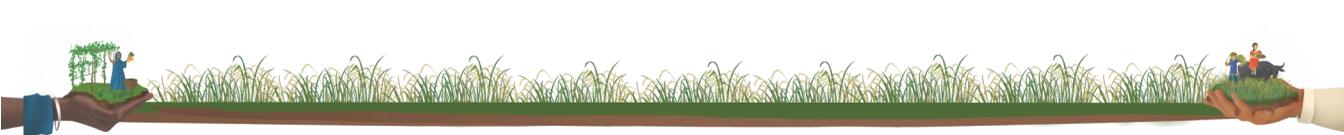
Recommendations

- **In relation to improving the policies and implementation strategies of BKB Crop Loan Program:**
 - a. Good governance should be ensured in the BKB management and administration so that good policies can be implemented well, and poor and marginal farmers could access the crop loan program comfortably.
 - b. The BKB credit policies and implementation strategies should include grassroots realities.
 - c. BKB officials should be properly trained on the annual Agricultural and Rural Credit Policy and Program of Bangladesh Bank so that they are well aware of the provisions for smallholder farmers.
 - d. The credit officials should be efficient and experienced enough to identify the real farmers, removing the intermediaries.
 - e. *Upazila*-wise, a gender-disaggregated listing of farmers must be developed and distributed to each branch of BKB to ensure the inclusion of all real farmers in the crop loan program.
 - f. The shortage of human resources at BKB should be addressed so that they can serve the loan applicants properly.
 - g. Information dissemination about the crop loan program should be made among the smallholder farmers.
 - h. A group or collective approach of lending should be taken.
 - i. The national identification card should be considered as collateral instead of 100 decimals or 0.4 of a hectare of land, so that landless farmers and sharecroppers can access the crop loan program.

- **In relation to ensuring gender equity in the policies and implementation of the crop loan program:**
 - a. Pro-women attitudes should be exhibited.
 - b. Measures should be taken to inform the women farmers about the crop loan.
 - c. Employing women credit officers in at least one BKB branch of each *upazila* (sub-district) is necessary.
 - d. A gender-disaggregated database of registered farmers needs to be created so that agricultural facilities including government credit can reach the farmers quickly.

- **In relation to ensuring sustainable or organic farming in the policies and implementation of the crop loan program:**
 - a. Organic farming initiatives should be acknowledged with greater significance (like a special package including interest waiver, flexible repayment schedule, other fringe benefits, etc.) in the program.
 - b. Wider dissemination of information is to be channelized to keep organic farmers well-informed about the program.
 - c. Target of inclusion of organic farmers in the crop loan program should be set at the level of the *upazila*.

- **In relation to addressing issues caused by COVID-19 in relation to credit assistance:**
 - a. An adequate loan amount covering costs from production to sales should be provided; the amount should be increased by one-third of the present loan amount.
 - b. There is a need to provide interest-free loan to the poor and marginal smallholder farmers.

- 
- c. Additional required support – both financial and non-financial – should be added to the crop loan program.
 - d. There should be scope of loan restructuring. BKB officials claimed that they prefer loan restructuring than issuing certificate case against loan defaulter farmer. ■

List of acronyms

ALRD	Association for Land Reform and Development	HYV	High Yielding Variety
ANGOC	Asian NGO Coalition for Agrarian Reform and Rural Development	JICA	Japan International Cooperation Agency
BB	Bangladesh Bank	KII	Key Informant Interview
BDT	Bangladesh Taka	MFI	Micro Finance Institution
BKB	Bangladesh Krishi Bank	MoA	Ministry of Agriculture
BRRRI	Bangladesh Rice Research Institute	MoL	Ministry of Land
CGAP	Consultative Group to Assist the Poor	NCB	Nationalized Commercial Bank
CLP	Crop Loan Program	NGO	Non-governmental Organization
CSO	Civil Society Organization	NID	National Identification Card
DAE	Department of Agricultural Extension	NSB	National Specialized Bank
DSS	Department of Social Service	PCB	Private Commercial Bank
DWA	Department of Women Affairs	PKSF	Palli Karma-Sahayak Foundation
DYD	Department of Youth Development	RAKUB	Rajshahi Krishi Unnayan Bank
FGD	Focus Group Discussion	RDB	Rural Development Board
FY	Fiscal Year	SDF	Social Development Foundation
FYP	Five Year Plan	SMAP	Small and Marginal Sized Farmers Agricultural Productivity Improvement and Diversification Financing Project
GDP	Gross Domestic Product	USD	United States Dollar
GoB	Government of Bangladesh		
GR	Green Revolution		

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Shamsul Huda
Executive Director, ALRD

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The views expressed in this paper do not necessarily reflect those of IDEALS, FFP and FFA.

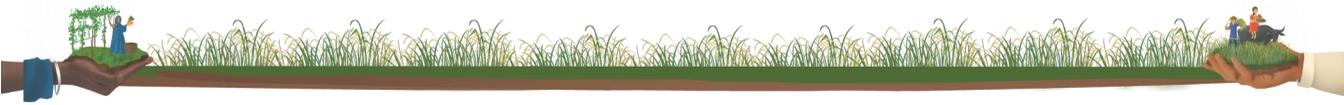
Citation

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Freedom from Usurious Moneylenders:

Case Study on Public Credit/Production Assistance to Small Rice Farmers in India

Overview of the agricultural sector

Significance of the agricultural sector in the country

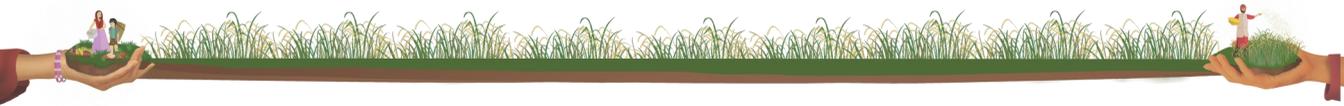
Agriculture in India is not merely a means of livelihood and income generation but a way of life. There are numerous rituals, folk songs, and festivals associated with agriculture. Since ancient times, in classical literature, agriculture has been accorded top rank among occupations followed by trade and services. For centuries, agriculture has been the main source of sustenance for the majority of the population. However, in modern times with the tremendous growth of industrial and services sectors, it has been relegated to a tertiary position. Nonetheless, even today as per Annual Report of Ministry of Agriculture and Farmers' Welfare – 2019 to 2020, agriculture and allied sectors provide employment to 54.6 percent of the total workforce of the country and contribute 16.5 percent of the country's Gross Domestic Product (GDP). As per estimates in 2020 to 2021, it has increased to around 19 percent. Nearly 80 percent of economically active women are employed in the agriculture sector, comprising 33 percent of the agricultural labor force. Very rightly, 30 percent of funds are allocated for women in various major schemes and programs of agriculture.

India occupies a leading position in the global trade of agricultural goods. It accounts for a little over 2.5 percent of world agricultural trade. Among India's major agricultural exports are marine products, basmati and non-basmati rice, buffalo meat, spices, raw cotton, sugar, oil meals, tea, etc. Indian agricultural/horticultural products are exported to about 100 countries, with the United States of America, Saudi Arabia, Iran, Nepal, and Bangladesh as major trade destinations. During the financial year 2019 to 2020, agriculture exports reached INR 2.52 lakh crore (approximately USD 33.88 billion) while imports totaled INR 1.47 lakh crore (approximately USD 22.61 billion) (Sally, 2021). India's agrarian culture and varied regional climate have significantly contributed to the global food basket.

Keeping in view the crop growing conditions and characteristics of different areas, India is divided into 15 agro-climatic and 20 agro-ecological regions. Hence, there are wide ranging differences in types, varieties, and seasonality of growing crops in different regions. Agriculture in the country is a risk-prone activity due to repeated incidences of droughts, floods, and hailstorms.

As per land use statistics (2014 to 2015), the country's total geographical area is 328.73 million hectares, of which, 140.1 million hectares (43 percent) are reported as

¹ One lakh crore is one trillion.



net sown area and 198.4 million hectares are the gross cropped area with a cropping intensity of 142 percent. Net irrigated area is 34.48 percent.

Rice and wheat are major food crops followed by sugarcane, millets, pulses, and oil seeds. Rice occupies 22.01 percent of the total gross cropped area whereas wheat covers 15.72 percent (2015 to 2016).

According to the Directorate of Economics and Statistics (2019), the comparative figures for cultivation of paddy (2017) are as follows:

Table 1: Area, Production and Yield of Rice in India and World

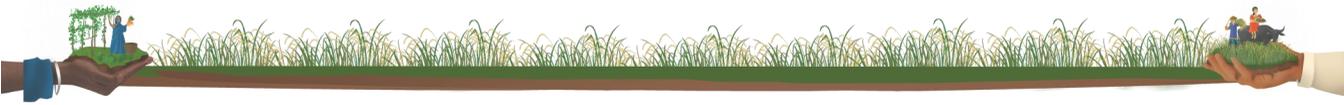
	Area (‘000 ha)	Production (‘000 tons)	Yield (Kg /hectare)	Percent (Share of production)
World	167,249	769,658	4,602	100.00
China	30,747	212,676	6,917	27.63
India	43,789	168,500	3,848	21.89

As seen in the above table, India ranks first in the world in terms of area under rice/paddy and second in share of production (21.89 percent) after China (27.63 percent).

The Government of India procures food grains to meet the requirements of the Public Distribution System at Minimum Support Price (MSP) which is announced every year at the time of sowing but only a small number of farmers (six percent), mostly from Punjab, Haryana, and western Uttar Pradesh benefit from it.

The agriculture sector is very often used as a political tool to impress the farming community. Political parties announce loan waivers, subsidized power supply, and honoraria to farmers when the elections are around the corner.

Three new bills were passed in 2020 by Parliament for the agriculture sector. These include the Farmers’ Produce Trade and Commerce (Promotion and Facilitation) Bill, the Farmers’ (Empowerment and Protection) Agreement on Price Assurance and Farm Services Bill, and the Essential Commodities (Agreement) Bill. According to the government, these bills seek to transform the agriculture sector. It also promises doubling farmers’ incomes by 2022 and the Central government said that the bills would make the farmers independent of government-controlled markets and fetch them a better price for their produce. Moreover, the government said that these bills aim to create a system in which farmers and traders can sell outside the *Mandis*. It also encourages intra-State trade and proposes to reduce the cost of transportation. The Farm Bills 2020 aim to enable farmers to engage with agri-business companies, retailers, and exporters for service and sale of produce while giving the farmer access to modern technology. It aims to benefit the small and marginal farmers with less than five hectares of land. The bills will also remove items such as cereals and pulses from the list of essential commodities, and attract Foreign Direct Investment (FDI) (Chetia, 2020).



These bills have become a bone of contention. As per provisions of these bills, farmers are given the option of free market, right to unlimited storage and contract farming which is opposed by a section of farmers – mostly belonging to Punjab, Haryana, and western Uttar Pradesh (Green Revolution areas). This agitation is backed by opposition parties who see this as an opportunity to win the confidence of farmers for the next elections. The Supreme Court, taking note of the situation has kept these Acts on hold and has appointed an expert committee to talk to the farmers and document their points of view on which further action will be taken. At the time of writing, farmers continue to demand that these Acts be dropped and a new one passed ensuring MSP applicable to both public and private sector purchases.²

Agricultural support system

Agriculture, as per provisions of the Constitution of India, is a State subject, but as far as national policy matters are concerned, these are decided by the national parliament and implemented by the Central Government. All States and Union Territories are bound to implement the policies decided by the Union/Central Government. Besides, the State governments/Union Territories are free to announce and implement programs of additional support to farmers in their respective areas.

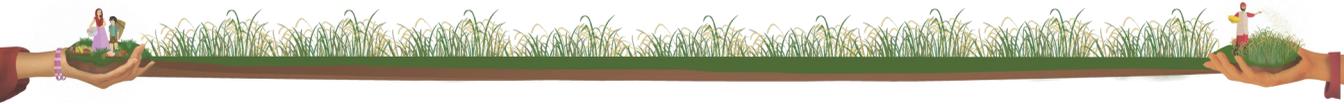
Small farmers

There is an official definition of small farmers – those owning between one and less than two hectares. There is a sub category – those having less than one hectare of land are categorized as marginal farmers. For all practical purposes, small and marginal farmers are taken together as those having less than two hectares of land.

As per Agriculture Census 2020, around 124 million farmers are categorized as small farmers, or those who own at most two hectares of land.

As per a study by Gururaj, et al., (2017), in India small and marginal holding farmers cultivate around 44 percent of the area and they produce around 60 percent of the total food grain production (49 percent of rice, 40 percent wheat and 27 percent of pulses). The average size of small and marginal holdings taken together is about 1.08 hectares as compared to 17.37 hectares for large farmers. According to the study, small farmers have limited access to technology, inputs, credit, capital, and markets that lead them to perpetuate in poverty trap. The UN Intergovernmental Panel on Climate Change Fifth Assessment Report also mentions that as per the adverse impact of climate change will be more pronounced on smallholding farmers, those who live in areas with fragile climatic conditions and who face an immediate and frequent crop failures, and loss of livestock.

²The Farm Bills 2020 were repealed by Parliament in December 2021.



Land use policy focusing on how lands for agriculture are protected

There is no comprehensive land use policy but as per the Indian National Policy for Farmers of 2007, prime farmlands are protected. It cannot be used for non-agricultural purposes except in exceptional cases with the condition that the user has to compensate it by developing an equal area of degraded/wasteland.

Policy on organic farming

There is no specific policy at the national level but two States, Sikkim, and Kerala, declared to go organic and have been working on it since 2015 to 2016. Sikkim has been declared a fully organic State. However, there is a program, Paramparagat Krishi Vikas Yojana (Traditional Agriculture Development Program), which encourages the use of traditional and organic farming. An assistance of INR 50,000 (approximately USD 672.04) per hectare is provided every three years for organic inputs, certification, labeling, packaging, transportation, and marketing of organic produce.

The scheme also encourages promotion of bio-fertilizers, bio-pesticides, and organic manures.

A situationer and sources of credit to small farmers

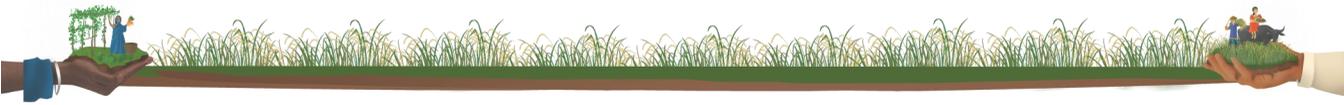
Small farmers or those having less than two hectares of land are evenly distributed all over the country. As per the Agriculture Census (2015 to 2016), the average size of landholding for marginal farmers is 0.38 of a hectare and for small farmers, 1.40 hectares. Taken together the size of landholding for small farmers averages at 1.08 hectares.

The main sources of credit as per All India Report on Input Survey (2016 to 2017) are:

- Primary Agricultural Credit Societies;
- Primary Land Development Banks;
- Regional Rural Banks;
- Commercial Banks;
- Self Help Groups/Farmers Producers' Organizations (FPOs);
- Kisan Samman Nidhi (Honorarium to farmers @ INR 6,000 [approximately USD 80.65] per annum); and,
- Kisan (Farmer) Credit Card, where the limit is linked with land owned by the holder of the card.

It is estimated that only 40 percent of small farmers have accessed formal credit support (Reserve Bank of India, 2019).

The major crops they cultivate are staple food crops including rice, wheat, coarse grains, etc. depending upon agro-climatic conditions. There are differences in seasonality of growing crops in different regions due to differences in agro-climatic conditions.



Rice is grown under widely varying conditions of altitude and climate. Therefore, rice-growing seasons vary in different parts of the country depending upon temperature, rainfall, soil types, water availability, and other climatic conditions. Eastern and southern regions are suitable for rice; two to three crops are grown in a year. In northern and western parts, only one crop is grown from May to November.

India has three seasons for growing rice: autumn, winter, and summer. Autumn or pre *kharif* is sown from May to August and harvested September to October. This cropping cycle has a short duration of 90 to 110 days. Only seven percent of crop is grown in this season. The *kharif* season rice crop is also known as winter rice (84 percent grown). It is sown from June to July and harvested in November. About nine percent of rice is grown in summer/*rabi* season that is sown from November to February and harvested March to June.

Agriculture in the country is prone to risks because of droughts, floods, and hailstorms.

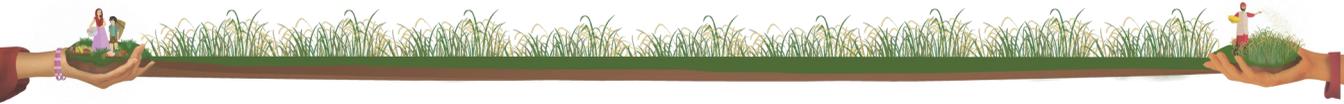
With agriculture being the primary source of livelihood for more than half of the country's total workforce, it is pertinent to note that as many as 80 percent of the economically active women are employed in agriculture sector comprising 33 percent of the agricultural labor force. Nearly one-third of the total funds (30 percent) in various major schemes and programs of agriculture development are allocated to women. *Mahila Kisan Diwas* (Women Farmers' Day) is celebrated every year on 15th of October since 2019 to encourage women farmers.

The research study

This research study focuses on public credit/production assistance to small rice farmers, and Kisan Credit Card (KCC) is selected for the case study.

Statement of the problem

Availability of timely, adequate, and sufficient credit support at reasonable rate of interest is critical to smallholders' farming and their lack of access to sufficient support and credit requirements for investing in crops, technology, or security amidst risks and in the face of shocks is a major constraint. As agriculture sector employs the largest number of people who are voters also make this sector politically sensitive, and political parties, particularly when the elections are around the corner, more often than not, use them as vote banks and focus more on providing immediate benefits like loan waivers to attract votes than offering long-term solutions. Such immediate benefits also hardly reach the small farmers. The lack of awareness about the official credit support system and negative conservative attitude towards borrowing as well as corruption in official sector make it a difficult proposition for small farmers to go for credit support. For social reasons, many of them rely on silent support from local moneylenders though at a



very high interest rate. Therefore, there is a need to study the situation on the ground, analyze it, and offer suggestions for credit support to smallholder farmers.

Objectives of the study

The main objectives of the study are:

- to analyze the relevance, appropriateness, accessibility, and usefulness of existing government production credit assistance for smallholder rice farmers;
- to underline the challenges in the system of delivery; and,
- to propose recommendations to government lending institutions to improve smallholder's access to and utilization of existing credit programs.

Study methods

Scope of the research study. This study focused on official credit support to smallholder rice farmers. Rice has been selected for this study because among major crops grown in the country, it ranks first in terms of production and gross cultivation area, and it is the only crop grown more than once a year and in some areas, two to three crops are cultivated in a year. Moreover, rice production is labor intensive, hence it provides employment to the largest number of agricultural labor.

The study, in general, covered the entire country with special reference to the States of Bihar, Odisha, and Chhattisgarh.

The following methods were applied in the conduct of this research study:

- review of literature to collect data and information from secondary sources;
- key informant interviews with government officials; and,
- focus group discussion (FGDs) with farmers and CSOs to validate findings and generate recommendations.

The draft report of the study was presented in the meeting of the Executive Committee (EC) of AVARD on 21 July 2021 with 10 members (seven males and three females) participating. The EC found the study quite relevant and approved it. Henceforth, the study was shared with farmers through Member Organizations of AVARD from 16 to 25 August 2021 in which 350 farmers (280 males and 70 females) participated and majority of them agreed with the findings of the study.

Finally, the study was shared with the Union Minister of Agriculture and Farmers Welfare and the Chairman of the National Bank of Agriculture and Rural Development on 26 August 2021. However, no response was received from any of them. It seemed that due to the agitation of farmers in the country, the government did not want to commit anything until the problem is resolved.



Limitations of the study. The official credit support to farmers were mostly generic in nature and not crop-specific, hence it would have been difficult to collect data specific to rice. Moreover, with India being a vast country, the coverage for primary data and information within the available time and resources was limited to select areas.

Brief overview of the selected farmers and crop

Number/estimate of selected farmers

As per a case study conducted by Raghav and Sen (2014) in Udham Singh Nagar, Uttarakhand with a sample size of 100 farmers focusing on socio-economic status of farmers and their perception about technology adoption recorded following figures on various aspects:

Table 2: Profile of Farmers in Udham Singh Nagar District, Uttarakhand (India)

	Marginal farmers	Small farmers
Education (%)		
Illiterate	35	35
Primary	20	15
Secondary	20	20
High School	15	20
Intermediate	10	10
Graduate	Nil	Nil
Family size (%)		
Up to 5	65	40
More than 5	35	60
Average age (Years)	58.10	57.5
Average size of land holding (hectares)	0.58	1.63

Source: Raghav and Sen (2014)

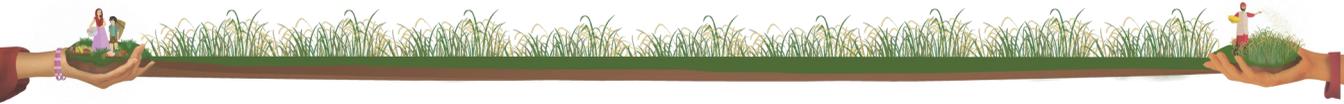
Similarly, a case study of Warangal District (Telangana) by Anuradha and Kamraju (2017) based upon sample survey came out with following figures:

Table 3: Socio-Economic Profile of Farmers in Warangal District, Telangana

Ownership category	%	Operational category	%	Gender composition	%
Pure tenant	7.5	Marginal and small	91.2	Males	97.21
Pure owner	63.5	Semi medium and medium	8.5	Females	2.78
Owner cum tenant	25.2	Large	Nil		

Social Groups	%	Literacy	%	Age group	%	Family type	%
Schedule Caste (SC)	15.8	Literates	46.5	30 to 50 Years	66.1	Nuclear	93.9
Schedule Tribes (ST)	4.4	Illiterates	53.5			Joint	7.1
Backward Caste	67.5						
Other Castes	12.3						

Source: Anuradha and Kamraju



A study (Vikas, 2015) conducted in Bihar State with a sample of 450 farmers revealed a common belief that the productivity of a farmer increases with age, reaches some mid-age peak and then decreases with further age. An increase and then decrease in efficiency as a farmer ages has significant implications on productivity. The study, as depicted in the following table, found that around 80 percent of farmers are over 35 years of age and 42 percent are over 50 years old.

Table 4: Age of Farmers' Household

Age Category of Cultivator tiller (years)	Number of Cultivators	Age-wise % of respondent/ actual
18 to 25	21	4.67
25 to 35	70	15.56
35 to 50	168	37.33
50 and above	191	42.55
Total	450	100.00

Source: Vikas, 2015

A study of economic conditions of Indian farmers by Ashwini Chanana (2016) revealed that the average Indian farm family works 80 hours per week and earns USD 3,000 in a year. His wife and children work with him in the field whereas an American farmer earns USD 60,000 in a year by working 80 hours per week.

The average income of a farmer's household owning up to two hectares of land according to National Sample Survey Office (NSSO) Report 2016 is INR 5,240 (approximately USD 70).

- **For the selected crop**

Rice has been selected as the focus for the study because India is one of the world's largest producer of this commodity. It also the country's most dominant crop both in terms of cultivation area and yield. Rice is seed of the grass *Oryza sativa* (Asian rice) and its cultivation is concentrated in areas with hot and humid (high rainfall) climatic conditions and low labor cost. The history of rice cultivation in India is quite old and interesting. In Indian literature, we find the first mention of rice in *Yajur Veda* (c 1500 to 800 BC). Paddy grains were found during the excavation of Hastinapur (India) estimated to be belonging to around 1000 to 750 BC and considered as an oldest sample. De Condolle (1886) and Watt (1862) mentioned south India as center of rice origin. D Chatterjee (1948) mentioned two centers of origin: South East Asia (India, Myanmar, and Thailand) and West Africa (Farmer's Portal, n.d.).

The cultivation of rice in India is concentrated mainly along the southern, northern, and eastern parts of the country – the areas of high rainfall. However, with the availability of good irrigation facilities, Punjab, a State located in the western part of the country, has become one of the leading producers of rice, which is a major staple crop of the country.



There are three rice growing seasons in India as mentioned below: a) Autumn or pre-*kharif* crop – sowing during May to August and harvesting in September to October [90 to 110 days crop]; b) *Kharif* or Winter crop – sowing during June to July and harvesting during November [150 to 180 Days]; and, c) *Rabi* or Summer crop – sowing during November to February and harvesting during March to June [60 to 90 Days].

As seen from the above description, the growing season of rice varies widely season-wise.

Table 5: Seasonality of Growing Rice in India

<i>Region</i>	<i>Winter Rice</i>		<i>Autumn Rice</i>		<i>Summer Rice</i>	
	<i>Sowing</i>	<i>Harvesting</i>	<i>Sowing</i>	<i>Harvesting</i>	<i>Sowing</i>	<i>Harvesting</i>
Bengal	May to June	October to January	March to July	June to September	October to January	February to April
Bihar	June to August	November to December	May to July	August to October	September to November	February to March
Tamil Nadu	June to October	December to March	-	-	December to March	April to May
Punjab	March to August	September to November	-	-	-	-
Uttar Pradesh	June to August	September to December	-	-	-	-
Gujarat	May to August	December to January	-	-	-	-
Kashmir	-	-	April to May	September to October	-	-
Karnataka	June to July	November to December	-	-	February	April to May
Madhya Pradesh	June to July	November to December	-	-	-	-
Kerala	September to October	January to February	April to May	September to October	January to February	April to May
Andhra Pradesh	June to July	November to December	-	-	November to January	April to May

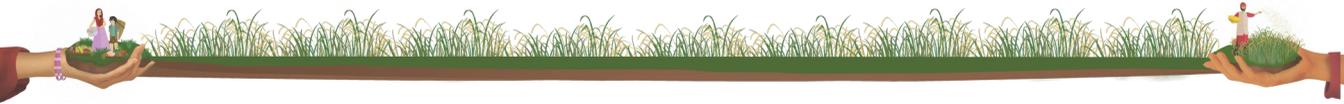
Source: Merchant, K T et.al: *Economic and Commercial Geography of India: National Council of Educational Research and Training (1970), p.23*

As far as cropping pattern is concerned, generally rice is followed by wheat, pulses, and oil seeds and in some areas by vegetables. However, in areas like Odisha, Chhattisgarh, Assam, and parts of West Bengal rice is followed by rice.

The average production varies from 2,494 to 2,659 kilograms per hectare.

The role of credit in the agricultural development of the country

The availability and access to adequate, timely and low cost credit from institutional sources is of great importance especially to small and marginal farmers. Along with other inputs, credit is essential for establishing sustainable and profitable farming systems. Easy access to financial services at affordable cost positively affects the productivity, asset formation, and income and food security of small farmers. The cultivation of rice as compared to wheat, another important



staple crop, requires more credit support because it is a costlier cultivation requiring more labor for preparation of nursery, transplantation, weeding and harvesting, as well as irrigation, fertilizers, insecticides and pesticides at different points in the production cycle. Hence, the availability of timely and sufficient credit is very important for the cultivation of rice.

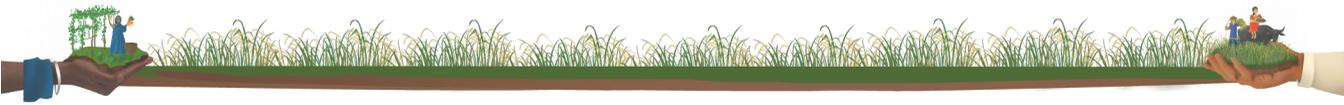
In case of crop failure, it becomes a liability beyond the paying capacity of small farmers. The non-payment of loans on time (12-month payment period) deprives them of subsidized interest rate and in place of four percent, they have to pay seven percent interest on loans. The food security of the households is threatened, prompting them to either sell the assets of the household or borrow from the local moneylender to meet the essential needs. In few cases, the burden of loan becomes the cause of anxiety and hopeless farmers finding no other option take the extreme step of suicide.

Policy environment on agricultural production credit assistance

A number of policies and programs were formulated by the government in the last five years on credit assistance to small farmers, to wit:

- Coverage of all farmers including tenant, sharecroppers, and SHGs under Kisan (Farmer) Credit Card;
- Special drive to reach out to more farmers under Atmnirbhar Bharat (Self-Reliant India) package;
- Rescheduling of payment period in case of crop failure;
- KCC holders have insurance coverage against financial losses of up to INR 50,000 (approximately USD 666), and disability and death at a nominal premium of INR 15 (approximately USD 0.20) for a single year and INR 45 (approximately USD 0.60) for three years;
- PM Kisan Samman Nidhi (Prime Minister Honorarium fund for farmers) at INR 6,000 (approximately USD 80) in three installments of INR 2,000 (approximately USD 27) each for all farmers. It is being considered to raise the amount from INR 6,000 to INR 10,000 (approximately from USD 80 to USD 133) per annum;
- Bringing all the farmers, including small and marginal farmers, within the banking fold and promoting complete financial inclusion to facilitate Direct Benefit Transfer (DBT);
- Reserve Bank of India's direction to all commercial banks to lend 18 percent of total credit to the agriculture sector. A sub-target of eight percent is fixed for small and marginal farmers at a reduced rate of interest of four percent per annum.
- Collateral free for loan up to INR 160,000 (approximately USD 2,160) to smallholder farmers.

In order to make agriculture more productive, sustainable, remunerative, and climate-resilient, the program on National Mission for Sustainable Agriculture was launched in 2014 to 2015. The mission promotes location-specific sustainable and best farming practices; soil conservation and moisture protection measures; soil



nutrient management; and; efficient and sustainable water management practices with mainstreaming rainfed methods. Major components include on-farm water management for increasing water use efficiency by promoting modern technologies such as micro irrigation, efficient water consumption, and, better distribution channels along with secondary storage facility.

On the other hand, the Paramparagat Krishi Vikas Yojana (Conventional Agriculture Development Program) encourages traditional and organic farming. Under this program, an assistance of INR 50,000 (approximately USD 672) per hectare every three years is provided for organic inputs, certification, labeling, packaging, transportation, and marketing of organic produce. The program also encourages promotion of bio-fertilizers, organic manures, and bio-pesticides.

In all agriculture development-related programs, 30 percent of the total outlay is earmarked for women farmers.

Government credit program for small farmers selected for this study

Rationale for choice of Government credit program

The Kisan (Farmer) Credit Card (KCC) scheme of Government of India is selected for the research study due to the following:

- Pan-India program;
- Long-term validity of the card;
- Hassle-free and easy to operate like ATM card;
- Collateral-free loans up to a certain amount;
- 10 percent increase per annum in permissible limit to meet cost escalation;
- Rescheduling of repayment period in case of crop failure;
- Lowest rate of annual interest;
- Covers loan for consumption expenditure and maintenance of farm assets as well as other needs of the farmer;
- Risk coverage in case of accidental death/disability;
- Crop loans are covered under the Crop Insurance scheme; and,
- Freedom to withdraw amount within the permissible limit for the year as per convenience of the farmer.

Description of chosen Government credit program

As per circular of Reserve Bank of India of July 2017, the main aim of the program is to provide adequate, convenient, and timely credit support to farmers at the lowest rate of interest from the banking system under a single window with flexible and simplified procedure for their cultivation and other needs, to wit:



- short-term credit requirements for cultivation of crops;
- post-harvest expenses;
- produce marketing loans;
- consumption requirements of farmers' household;
- working capital for maintenance of farm assets and activities allied to agriculture; and,
- investment credit requirement for agriculture and allied activities.

Table 6: Important Developments in KCC Scheme Implementation

Circular Date	Particulars
14 August 1998	Introduction of KCC Scheme
09 August 2004	To cover term loan for agricultural purposes. Validity of KCC increased from three to five years
01 June 2006	interest on short term credit to farmers fixed at seven percent up to INR 300,000
31 October 2006	State Coop Agri & Rural Development Banks introduced
29 March 2012	10 percent and 20 percent provision for consumption and asset maintenance. Year-wise drawing power for five years
09 November 2012	Scheme for issue of KCC in the form of interoperable RuPay Cards
15 November 2012	All old KCC converted into ATM cum Debit/RuPay Cards
01 August 2014	Support for ITC solutions through POS /Micro ATMs and RuPay Kisan Cards under KCC Scheme
08 July 2015	Coverage of KCC holders under Atal Pension Scheme

Coverage and clientele of program

The program covers all farmers at country level.

Farmers belonging to all categories, including tenant and sharecroppers, comprise the target group. It aims to cover 14 crore³ farmers. The actual number reached as of 11 February 2019 was 6.95 crore. The main reason for the difference in targeted and actual clients is lack of awareness among farmers and fear of loan burden.

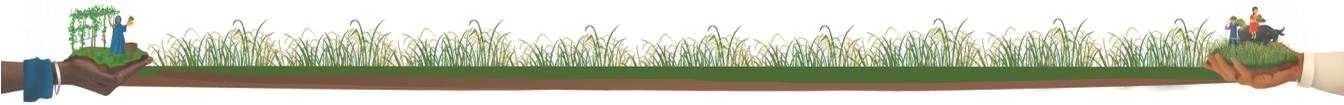
Types and amounts of loans and other financial assistance

The annual budget of the program is around INR 2 lakhs crore, or over USD 30 billion.

Marginal farmers (with landholding below 1 hectare) can avail loans from INR 10,000 to INR 300,000 (approximately USD 135 to USD 4,032). Of the total loan amount extended, 10 percent is allowed for consumption while 20 percent is the ceiling for asset formation. The limit of loan amount is decided based on operational landholding/crops cultivated.

It has provision of collateral free loan up to INR 160,000 (approximately USD 2,150).

³ One crore is 10 million.



The card is valid for three to five years subject to annual review.

In case of crop failure, the repayment period is rescheduled. KCC holders are covered under insurance against financial losses of up to INR 50,000 (approximately USD 672) against accidental death/disability. Coverage under Atal Pension Scheme is at a very nominal premium. Crop coverage loans are covered under Crop Insurance Scheme.

Support services

No other provision except no processing fee for loans starting from INR 300,000 (approximately USD 4,032) and above. There are advertisements in electronic, radio, and print media to popularize the program and awareness generation of farmers about the procedure to access it and its benefits.

Repayment rates

The normal repayment rate on bank loans for agricultural purposes is nine percent per annum but under this scheme, a subsidy of two percent and a subvention incentive of three percent in interest rate, if paid within the stipulated period of 12 months, is provided. Thus, the actual interest rate to be paid by farmers comes down to four percent. In case of crop failure, repayment period is rescheduled. The repayment rate of loan advanced through KCC is around 88 percent (i.e. a default of about 12 percent).

Sanctions for non-repayment of loans

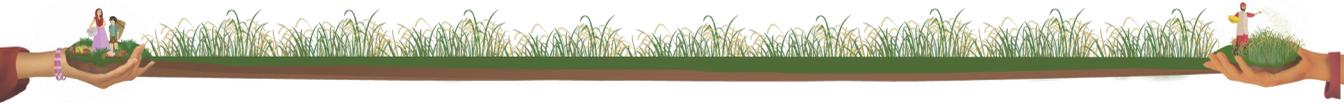
The loanee has to pay at the rate of seven percent of interest and in extreme cases, the card may become invalid. The loanee may also be blacklisted and cannot avail any loan from any bank. Different banks have their own mechanisms to recover the loans advanced. These penalties are enforced by banks to ensure discipline.

Credit channels

Loans are provided through commercial, regional rural, and cooperative banks. The performance can be rated as superior because it is hassle-free, farmer-friendly, and easy to operate through nationwide network of bank branches.

Program management and staffing

The program is managed by banks as regular ATM services, hence there is no issue of staffing and mistakes. It takes some time to get the first Kisan Credit Card as many government schemes are attached with banks.



Reviews about KCC

Kaur and Dhaliwal (2018) said that KCC provides hassle-free credit to farmers for production and consumption needs as and when required. The paper examined progress period-wise and agency-wise from 1998 to 1999 to 2012 to 2013. Mehta et al. (2016) analyzed the role of KCC in rural India. It was observed that KCC was very effective and a popular tool of rural credit to finance the requirements of farmers in a judicious manner.

Gandhimathi and Sumaiya (2015) evaluated the role of the KCC system in the distribution of agricultural credit. It observed that KCC improved the financial inclusion in the agriculture sector. Maurya (2015) studied the role of cooperative banks in agriculture in the District Mohali (Punjab) to assess the impact of agricultural credit provided by cooperative banks. Lending had significant impact but banks faced the problem of overdues and defaults. Godara, et al. (2014) analyzed the KCC scheme in the State of Haryana. It was found that RRBs (Regional Rural Banks) performed better than cooperative banks. Laxyapathi (2013) evaluated the KCC scheme in India and Karnataka. It was observed that there was significant rise in production of crops and thereby in income.

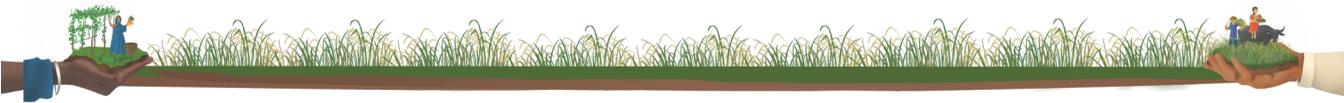
Table 7: Strengths and Challenges of KCC Scheme Implementation

Strengths	Challenges
<ul style="list-style-type: none"> • Ensures adequate and timely delivery of credit with added benefits like risk coverage • Hassle free, handy and easy to operate for longer duration (three to five years) • Automatic increase of 10 percent in the permissible limit to meet cost escalation 	<ul style="list-style-type: none"> • Regional disparity and low level of awareness among farmers about the process and benefits of the scheme • Lack of interest among the functionaries of public lending agencies as it is just a part of their routine duty and many of them lack sensitivity towards the small farmers

Impact of COVID-19 on the implementation of KCC

In general, the program was least affected by the COVID-19 pandemic. However, due to continued lockdowns and the restricted people mobility, many of the needy farmers could not visit the banks. Although, keeping in view the hardships faced by the farmers in pandemic situation, the government renewed its efforts for larger coverage under its Self-Reliant India initiative.

Due to disruption in the supply chain, the cost of inputs has gone up so the sanctioned limit may fall short of the requirements. To overcome the situation, the Government has launched a special drive to reach out to more farmers by organizing field-level awareness camps by some banks. The Government is also providing free ration to smallholder farmers' household to partially meet their consumption needs in addition to early release of the installment (INR 2,000 or approximately USD 27) of PM Kisan Samman Nidhi to partially meet their required farm inputs.



Credit needs of small farmers

Credit requirements provided by KCC

The main credit requirements of the farmers are numerous such as production inputs – seed, fertilizers, insecticides/pesticides, labor, etc.; investment in farm equipment, irrigation; consumption to meet the family needs until the crop is ready; and, marketing of the produce. Availability and access to adequate, timely, and low-cost credit from institutional sources is of great importance to meet these requirements especially to small and marginal farmers. Along with other inputs, credit is essential for establishing sustainable and profitable farming systems. Experience has shown that easy access to financial services at affordable cost positively affects productivity, asset formation, income, and food security of the rural poor. The major concern of the government is, therefore, to bring all farmers' households within the banking fold and promote complete financial inclusion.

The chosen program, the Kisan Credit Card scheme, in principle, addresses all the requirements related with production, consumption, asset maintenance, marketing, and investment in assets. The loans for investment are long-term (payable within five years) whereas for all other purposes it is short-term (payable within a year). Thus, the selected credit program, in general, meets the requirements of the farmers.

However, in case of any shortfall, the farmers rely on well-to-do fellow farmers and of course the local moneylenders.

We should remember that only 40 percent of farmers are covered by the banking credit system while the rest depend on other traditional sources. Therefore, a lot more needs to be done. Though the Government is trying its best to enhance its reach to more farmers under its Self-Reliant India Program, it is a long way to go.

Limiting factors for access to credit for smallholder farmers

The key factors that limit smallholder farmers' access to official credit are:

- Lack of awareness among farmers about government programs and poor knowledge about the benefits of KCC;
- Low level of financial literacy and poor skill to interact with bank officials;
- Non-prioritization of women farmers;
- In some cases, non-cooperation by bank officials due to heavy workload;
- Lack of adequate facilitation services in bank branches to assist the illiterate/low literate farmers hence they have to depend on middle men;
- Negative attitude towards borrowing and loans, which are generally understood as an indicator of poverty; and,
- Fear of crop failure restricts them from availing of loans.

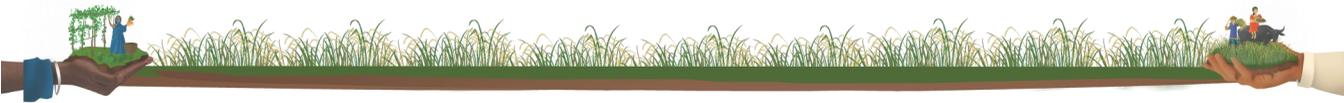
Special credit requirements of small farmers during the pandemic

India, has suffered severely from the pandemic and smallholder farmers too were adversely affected and hit hard due to disruption in the supply chain, sudden lockdown and shutdown of many economic/industrial activities as well as transportation. This pandemic is regarded to be one of the worst blows of the century. Though the governments – Central and States – tried to address the issue by ensuring regular supply of food grains, possible medical care including supply of medical oxygen, injections, medicines, and direct cash transfer to the people below the poverty line, it has been a challenge to reach those in need in a vast country. The scenes of long queues and of people travelling thousands of miles to their hometowns without proper food and water have been heart-rending.

In the light of the COVID-19 pandemic, the following needs are identified by the small farmers:

- They should be given more time for loan repayment because they could not sell their produce at reasonable prices due to the lockdown and disruption in the supply chain.
- Many of them had to sell their produce at a distress price to meet medical and other requirements during the lockdown, hence they do not have enough money for repayment. Such farmers need special assistance.
- Due to disruption in the supply chain, there is shortage of inputs in the market hence the prices have gone up. Considering the gravity of the situation, small farmers' credit limit should be enhanced proportionately to meet the requirements.
- Small farmers left out of formal credit support must be mobilized and included in the banking fold on priority basis to ease them out of the clutches of local moneylenders who are ready to convert the calamity into opportunity for making money.
- Banks should plan to reach out to small farmers by organizing special camps in rural areas for facilitating the issuance of new KCCs rather than have farmers crowding the bank counters and face humiliation.
- Public lending agencies should come forward to reschedule the repayment period in easy installments and grant adequate fresh loans for the upcoming cropping season to help smallholder farmers avoid the trap of private moneylenders.





Conclusion and recommendations

Summary of overall findings

Agriculture in India is more than just a source of income generation and livelihood. India, however, has suffered severely from the COVID-19 pandemic, and this has adversely affected small farmers. Though the government tried to help in every possible manner, a lot more needs to be done.

Rice was selected for this study as India is one of the world's largest producers of rice.

Agriculture in India is a State subject. However, as far as policy matters are concerned, the Union government decides these and States are bound to implement them.

This study looked into the credit access of small farmers who are defined as those owning less than two hectares of land and they account for 85.01 percent of total farmers in the country. They are an estimated 125,600,000 small farmers with an average landholding of 1.08 hectares.

The main sources of credit to farmers are:

- Primary Agricultural Credit Societies;
- Primary Land Development Bank;
- Regional Rural Bank;
- Commercial Banks;
- Self Help Groups/Farmers' Producer Organizations;
- Kisan Samman Nidhi (Grant-in-aid); and,
- Kisan Credit Card.

As per an estimate, only 40 percent farmers have access to official credit support. The availability of timely, adequate and sufficient credit at reasonable interest rate is critical to smallholder farmers.

This research study was mainly based on literature review and data from secondary sources. However, wherever possible information from key informants and findings of group discussion have been utilized. Official credit support to farmers are generic in nature hence it is difficult to find crop-specific data.

The role of credit in agricultural development is extremely important and it positively affects the productivity, asset formation, income and food security of smallholder farmers. Cultivation of rice is comparatively costlier than other staple crops hence credit support becomes critical for good crop.

It has been found that KCC is a very effective and popular tool of rural credit to finance the requirements of farmers in a judicious manner. It has also been observed that there was significant rise in production of crops and thereby in



income of farmers. However, cases of overdues and defaults are being faced by some banks.

To help farmers get by during the pandemic, the government has provided free ration to all smallholder farmers that will continue until November 2021. Efforts are being made to cover more farmers under KCC by organizing field camps by banks. The Kisan Samman Nidhi was released earlier to facilitate farmers.

Credit needs of smallholder farmers are numerous. Credit is essential for establishing sustainable and profitable farming systems. KCC covers all the requirements of farmers so the Government is trying to cover all farmers under KCC and bring all households within the banking fold.

In the light of COVID-19 pandemic, the special requirements of smallholder farmers include more time for repayment of loans; special assistance to meet consumption needs; enhancement in credit limit due to escalation in prices of inputs; and public lending agencies should reach out to farmers, etc.

Impact of KCC on production and profit of crops

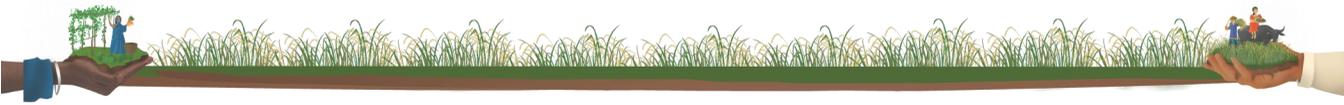
KCC has been quite effective in mobilizing farmers for profit-oriented farming. A study on “impact of KCC on Production and Profit of Crops in selected Areas of Haryana” (Singh, 2020) revealed the facts as depicted in following tables:

Table 8: Return over Costs for KCC Beneficiaries and Non-KCC Farmers in Rohtak

<i>Category</i>	Small	Medium	Large	Total No. of Farmers
Beneficiary farmers				
Population	100.00	100.00	100.00	300.00
Productivity	20.51	20.97	21.60	21.02
Non-beneficiary farmers				
Population	100.00	100.00	100.00	300.00
Productivity	18.80	19.16	20.40	20.82
Percentage change in production	10.61	10.97	7.19	9.59

Table 9: Comparison between Productivity and Income Before and After Taking KCC

Particulars	Before KCC	After KCC
Marginal farmers (less than 1 hectare)		
Productivity (Qt/ha)	50.00	53.50
Gross income (INR)	61,450.50	78,120.40
Net income (INR)	17,405.00	25,900.00
Small farmers (up to 2 hectares)		
Productivity (Qt/ha)	50.30	53.80
Gross income (INR)	52,810.00	59,545.28
Net income (INR)	17,492.48	25,875.24
Big farmers (Above 2 hectares)		
Productivity (Qt/ha)	50.92	53.80
Gross income (INR)	53,496.36	69,803.46
Net income (INR)	17,646.34	26,196.16



As revealed in the above tables, the net income of farmers increased substantially after taking KCC loans. The increase in net income of marginal farmers is 48.80 percent, for small farmers it is 47.92 percent, and for large farmers it is 48.45 percent. Thus, as per the study, the positive impact of KCC on productivity and income is worth mentioning.

Social group-wise access to official credit facilities

Data from the All India Debt and Investment Survey NSSO 2013 showed that access to credit varied across social groups based on many factors. It also observed that although the government has implemented programs, schemes and policies to promote economic empowerment of lower castes through finance since the 1990s, these have not been very effective (Karthick and Madheswaran, 2018).

Conclusion

KCC is a very effective tool to transform the fate of small farmers and is helping in enhanced production by providing timely, adequate, and hassle-free credit support at a very low interest rate. The loan amount meets production, consumption, and cost of maintenance of farm assets of small farmers. It has helped greatly in freeing farmers from the clutches of local moneylenders. Though there are some cases of default, it can be minimized and regulated properly with good governance. The government is striving for universal coverage of farmers under the scheme.

Another important point is that despite various policy measures, the backward classes (Scheduled Castes, Scheduled Tribes, and Other Backward Castes) have not been able to access formal credit as successfully as forward castes and they lag far behind.

Recommendations

The program may be enhanced by undertaking the following:

- Generate awareness about the benefits of the scheme among small farmers by organizing camps at the field level;
- Bank officials should facilitate transaction needs of illiterate farmers;
- Increase bank officials' awareness of the need to deal with small farmers in a suave manner;
- Prioritize of women farmers; and,
- Enhancement in loan amount to meet the escalation in prices from existing 10 percent to 20 percent per annum.



In response to the COVID-19 pandemic, the following are proposed:

- The Government should waive 50 percent of the loans advanced to smallholder farmers. The government is providing 50 percent subsidy to farmers on purchase of tractors but this subsidy has mostly benefitted big farmers, so the demand for 50 percent waiver of loans for smallholder farmers is justified;
- Farmers should be given subsidy in prices of inputs required for cultivation, particularly seed and fertilizers;
- The farmers should be given special rebate on prices of diesel for consumption of tractors and other agricultural machinery to cope with the high price rise in diesel; and,
- Free ration to smallholder farmers until the harvest of the next crop. ■

List of acronyms

AVARD	Association of Voluntary Agencies for Rural Development
FC	Forward Caste
FGD	focus group discussion
GDP	Gross Domestic Product
INR	Indian Rupee
KCC	Kisan Credit Card
KII	key informant interview
NABARD	National Bank for Agriculture and Rural Development
NSSO	National Sample Survey Office

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Dr. B. Mishra
President, AVARD

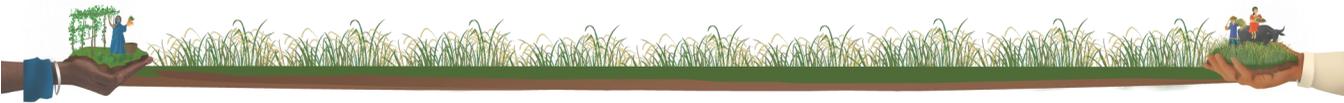
Disclaimer

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The views expressed in this paper do not necessarily reflect those of IDEALS, FFP and FFA.

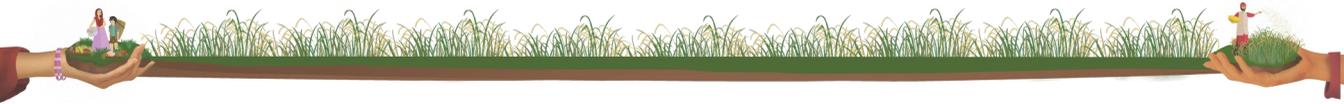
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Not quite ready to touch farmers' lives holistically:

The Role of Agricultural People's Business Credit (Kredit Usaha Rakyat-KUR) Program in Karanganyar District, Central Java, in Indonesia

Country context

Overview of the agriculture sector

Indonesia is an agricultural country with an area of 7.46 million hectares of paddy fields. According to Databoks Katadata (2020), rice is Indonesia's largest agricultural produce. The land area of rice farmlands in Indonesia was estimated at 10.68 hectares in 2019 (BPS, 2020). Meanwhile, the most consumed food in Indonesia are rice, corn, and tubers (BPS, 2020; Food Security Agency, 2020).

Rice is the top food source in Indonesia with an average direct household consumption of 94.9 kg/capita/year or about 2.5 million tons per month (Food Security Agency, 2020). Apart from being the highest contributor to Indonesia's national economic growth (16.24 percent), the agriculture sector is one of the supporting factors in preventing a food crisis in the rural communities during the COVID-19 pandemic.

Below is the general description of crop harvest area in Indonesia in the last five years.

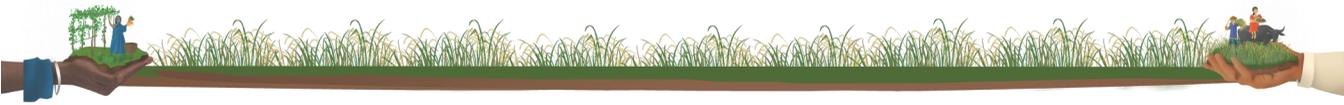
Table 1. Size of land per crop

Crops	Land Size (Hectares)
Rice	15, 994, 512
Corn	5,734, 326
Soybean	680, 373
Peanut	454, 349
Green bean	197, 508
Cassava	949, 916
Yam	143, 125

Source: Kementerian Pertanian Republik Indonesia (2019)

Microfinance is one of the keys to access to finance and is used as the main strategy in poverty alleviation. There are various sources and forms such as formal institutions – banks (Village Bank, Indonesia Credit Bank) or non-banks (pawnbroker, village barn) – and non-formal financial institutions (moneylenders, regular social gatherings). Microfinance institutions in the agriculture sector offer some assistance in the form of credit and savings to farmers.

This agricultural credit has faced several obstacles, which are influenced by several factors: a) lack of administrative services; b) the credit system does not follow the pattern of farmers' lives; c) accountability; d) poor access to credit for small farmers as most of them live far from the city; and, e) climate change which exacerbates the risk of crop failure (SMERU, 2000). Additionally, the development



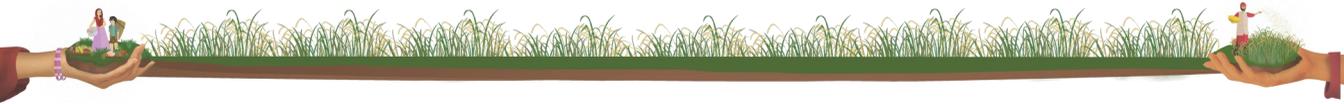
and improvement of agricultural credit in Indonesia continues to be carried out and produces various formats from conventional to financial technology-based, such as peer-to-peer lending involving non-governmental institutions engaged in the micro and agricultural sectors (Octaviano, 2021).

One of the agricultural credit programs from the Indonesian government that has been running for a long time and has undergone many transformations is the People's Business Credit (KUR). The Government of Indonesia increased the budget allocation from IDR 50 trillion (approximately USD 3.508 billion) in 2020 to IDR 70 trillion (approximately USD 4.912 billion) in the 2021 State Budget (APBN) for the distribution of KUR, which is aimed to develop and cultivate agricultural commodities, horticultural crops, and plantations owned by farmers. The increase in budget allocation is a response to the food crisis and the ongoing COVID-19 pandemic, considering that the agriculture sector is the breadwinner of Indonesia's food security during the crisis.

Situation of smallholder farmers and their sources of credit

According to BPS (2020), the percentage of poor people in villages in 2019 was 12.6 percent, higher than that of poor people in cities, reaching 6.56 percent. The BPS also recorded that 49.41 percent of poor households in villages depended solely on the agriculture sector for their livelihood. In Indonesia, the Farmer Exchange Rate (NTP) is a farmer's welfare indicator proxy that describes farmers' purchasing power. The National NTP in July 2021 was 103.48, down by 0.11 percent from June 2021. Based on the State of Food Security and Nutrition in the World (SOFI) 2021 published by the Food and Agriculture Organization of the United Nations (FAO), low NTP causes low purchasing power and welfare, which contributes to the increase in poverty and malnutrition in villages. The decrease in Indonesia's NTP could be caused by the Public Activity Restriction (PPKM) since July 2021 due to increased COVID-19 cases.

Analyzing the situation of small farmers in Indonesia would be more accurate if we examine their definition. According to Naraya and Gulati (2002) in *Small-scale Agriculture Existence in the Global Market Competition Era* (Sumaryanto, 2010), small farmers can be defined through two lenses, namely, labor and income. Through the labor lens, small farmers are households whose livelihoods depend on farming, which is mostly handled by their own family members; while through the income lens, small farmers usually have low income. According to Sayogyo (1977), small farmers are measured based on their land size of less than half of a hectare. In the article *Perempuan Petani Menghadapi Berbagai Rintang* (Ting, 2017), data in 2013 showed that 40 percent of smallholder farmers were women (around 7.4 million) and data in 2017 showed that around 13.7 million women worked in the agriculture sector. Women farmers in Indonesia are still facing difficulties in gaining access to and control of farmland. Based on the Agricultural Integrated Survey (AGRIS) 2020 (as cited in Databoks-Katadata, 2021), women who own farmlands make up only 5.07 percent, while men make up 21.67 percent. This is the reason why women do not often become smallholder farmers in Indonesia.



In *Performance of Uses and Sources of Rice Farm Business Working Capital* (Darwis, 2012), the sources of capital for farmers in Indonesia are divided into four, namely:

- Own capital, where farmers do not have to borrow from other parties or financial institutions. This capital can be in the form of land.
- Formal credit from legal financial institutions, such as pawnshops, cooperatives, and banks.
- Non-formal credit from individuals or organizations whose establishment is not bound to the law.
- Partnership between small business owners and medium or large business owners. This partnership is usually accompanied by mentoring for smallholder farmers from medium or large business owners so that there can be mutually beneficial relations.

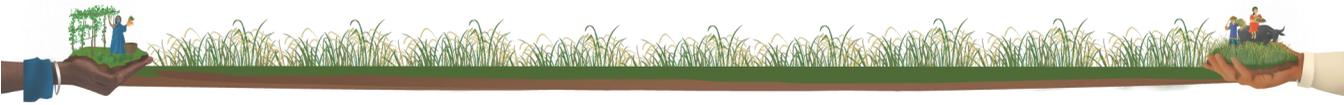
In general, financial institutions can be divided into formal and non-formal institutions. Formal institutions offer various credit schemes, ranging from distribution system, services, interest rate, incentives, to sanctions. These schemes are made as simple as possible to ease debtors in accessing credit. Some examples of formal credit for farming in Indonesia are Agribusiness Microfinance Institutions, KUR for Agriculture, Farming Capital Credit from the People's Credit Bank, Credit for Cooperatives, Watershed Small Business Credit Program, Food Security Credit, and others.

There are many non-formal credit institutions in villages. These can be individuals or organizations that are not regulated by the law. In such cases, the credit distribution system is implemented in accordance with the people's aspirations. The trust built by these credit institutions is based on their image and intensity of relations with the debtors. One example of non-formal credit in Indonesia that farmers often use is the *Ijon* system,¹ which is a Javanese term that means a credit system whose payment is conducted after harvest with low selling prices from middlemen.

KUR is a form of capital assistance for Indonesian farmers who have been impacted by the COVID-19 pandemic. According to Airlangga Hartarto, Coordinating Minister for Economic Affairs, the amount of KUR in the agriculture sector in 2021 for each subsector is as follows (Syukra, 2021):

- IDR 9.5 trillion (approximately USD 668 million) for palm oil;
- IDR 7.8 trillion (approximately USD 548 million) for rice farming;
- IDR 5.5 trillion (approximately USD 387 million) for other plants and forestry;
- IDR 5.2 trillion (approximately USD 366 million) for horticultural farming;
- IDR 3.9 trillion (approximately USD 274 million) for cow breeding and cultivation;

¹ Sales of plant products that are green or have not been picked from the stems (in the fields, etc.).



- IDR 3.5 trillion (approximately USD 246 million) for goat and sheep breeding and cultivation;
- IDR 2.7 trillion (approximately USD 190 million) for *palawija* farming;
- IDR 2.6 trillion (approximately USD 183 million) for mixed farming; and,
- IDR 1.1 trillion (approximately USD 77 million) for seeding, cultivation, and other services.

So far, in 2021, realization of KUR distributed to crops has only reached 26.9 percent or IDR 7,788,971,820,122 (approximately USD 546.769 million) from the target of IDR 26,812,189,000,000 (approximately USD 1.881 billion). As KUR is expected to help the economy of farmer households as well as Indonesia during the pandemic, several attempts have been made to make sure the KUR program is successful, such as additional KUR fund targets and simpler mechanisms. In reality, smallholder farmers still face difficulties in accessing KUR because they do not have collateral (Rahma, 2019).

The research study

Statement of the problem

The KUR program is the government's attempt to expand access to funding for micro, small, medium enterprises (MSMEs), including agriculture, livestock, and fisheries. Outside of this study, amid the government's efforts to expedite the distribution of KUR, several financial institutions that distribute the KUR, such as banks and cooperatives, are facing obstacles in distributing KUR to smallholder farmers. The obstacles include internal problems such as access, scheme, interest, requirements, and payment as well as external problems, such as competition with non-formal credit institutions that have flourished among the people.

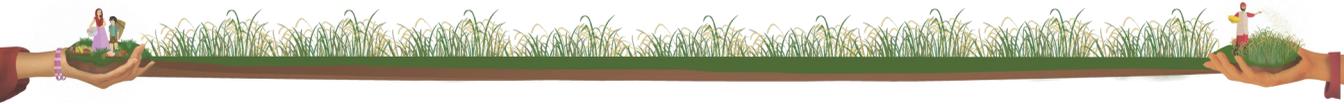
Objectives of the study

This country case study on public agricultural production credit assistance in was conducted in pursuit of the following three specific objectives:

- Examine the implementation of BRI-KUR program as credit assistance for farmers in Karanganyar, Central Java;
- Analyze sources of capital that are often accessed by farmers (pluses and minuses of the support, challenges and obstacles); and,
- Provide recommendations for better capital/credit assistance for farmers.

Methodology

According to BPS (2020), the rice consumption rate in 2020 in Indonesia was 31.31 million tons, meaning that Indonesia's staple food is dominated by rice, compared to other staple foods, such as corn, soybean, and tubers. Furthermore, Indonesia's



geographical location between two continents (Asia and Australia) and two oceanic divisions (Indian Ocean and Pacific Ocean), causes it to have two seasons (dry and rainy) and become one of the agrarian countries in Southeast Asia.

With above conditions, this study attempted to explore the agricultural credit program from KUR led by BRI used by small farmers in Karanganyar Regency. This study focused on two sub-districts in Karanganyar Regency, namely Jumapolo and Jatipuro as these two sub-districts have extensive agricultural land, especially rice. This study was divided into two main activities. First, profiling the smallholder farmers for a particular topic on agricultural finance to identify the financial support of the smallholder farmers. Second, in-depth interviews and focus group discussions (FGD) for more understanding of the local contexts of the smallholder farmers. The interview series was designed for self-reliant rural communities (KSPs), farmer organizations (FOs), farmer's family, and stakeholders (local). Both activities were conducted by researchers using the guidelines for different informants (see Table 2).

Table 2. Key Informants of this Study

Type	Key Informants
Farmers (individuals and organizations)	Farmer Group Association (Gapoktan) in Jatipuro Sub-district Women beneficiaries of KUR program
Government	Department of Agriculture Department of Cooperatives and SMES Village Government
Cooperative	Ngudi Makmur Cooperative
Bank	BRI Bank in Central Java as agricultural KUR distributor

In collecting data, the researcher used several methods to represent the required information, such as literature study, in-depth interviews, and FGD. As the number of COVID-19 cases in Indonesia increased, the research team minimized fieldwork to avoid direct contact. Therefore, Bina Desa mainly implemented online-based data collection (telephone, Zoom, Skype, and others) to minimize the mobilization and spread of COVID-19 (refer to Table 3).

Overview of selected farmers and crop

Over the last three years, Indonesia's rice production based on FAO data increased to 54.65 million tons in 2020. This figure makes Indonesia the third largest rice-producing country in the world. It can be seen from BPS data from 2014 to 2018 that rice was harvested in areas covering 15,994,512 hectares in Indonesia, with 29.59 percent or 38.77 million of Indonesian workers working in the agriculture sector. One of the contributors to rice in Indonesia is Karanganyar Regency, Central Java. Karanganyar became the national rice barn in 2017 with 26,500 hectares of rice fields and a rice yield of 342,552 tons.



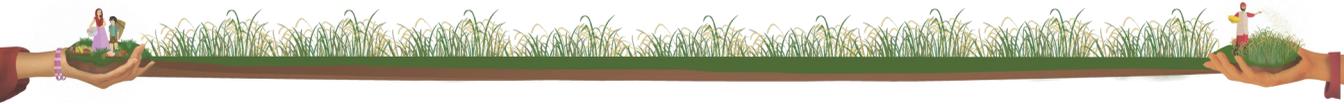
Karanganyar had 931,963 people in 2020 (BPS), consisting of 464,784 men and 467,179 women. In this study, researchers determined the number of farmers who would be research subjects in two sub-districts, namely Jumapolo and Jatipuro (refer to Table 4).

Table 3. Data Collection Method

Data collection method	Information gathered
Literature review	<ul style="list-style-type: none"> • General information about agri-finance in Indonesia (microfinance) • Agricultural value chain
Media monitoring	<ul style="list-style-type: none"> • Background of the credit program • Financial support in the agricultural sector
In-depth interview with KSP's farmers (online)	<ul style="list-style-type: none"> • Personal profile of farmer • Availability of support services (financial, assistance, agricultural inputs) • Credit/financial support (source, use of credit, access/mechanism, challenges and obstacles)
In-depth interview with FO	<ul style="list-style-type: none"> • General profile of farmer in KSP (characteristics) • Availability of support services (financial, assistance, agricultural inputs) • Credit/financial support (source, use of credit, access/mechanism, challenges, and obstacles)
In-depth interview with stakeholders	<ul style="list-style-type: none"> • Availability of support services (financial, assistance, agricultural inputs) • Credit/financial support (source, use of credit, access/mechanism, challenges, and obstacles)
FGD with FOs' staff on the region level	<ul style="list-style-type: none"> • General profile of farmer in KSP (characteristics) • Availability of support services (financial, assistance, agricultural inputs) • Credit/financial support (source, use of credit, access/mechanism, challenges and obstacles)
FGD with farmers on the region level	<ul style="list-style-type: none"> • General profile of farmer in KSP (characteristics) • Availability of support services (financial, assistance, agricultural inputs) • Credit/financial support (source, use of credit, access/mechanism, challenges and obstacles)

Table 4. Number of Selected Farmers

Data collection	Number of Selected Farmers		
	Men	Women	Total
In-depth interview FOs	4	2	6
In-depth interview Farmers	4	2	6
FGD FOs	3	3	6
Group Interview Farmers	5	5	10
Total	16	12	28



Description of the selected farmers

The farmers that the researchers chose in this study have land for farming (rent/pawn/own), with an average land ownership of 0.1 to 1 hectare (small and medium farmers) and an average number of four to five family members.

The selected crop

The plants selected in this study are food crops that are widely consumed in Indonesia, including in Karanganyar Regency, namely paddy. Seeds that are often planted in Karanganyar include Ciherang, Mekongga, and Situbagendit with a direct sowing system or what is often called a *tabela*. The average rice planting in Karanganyar is for six months, with harvesting done on the sixth month.

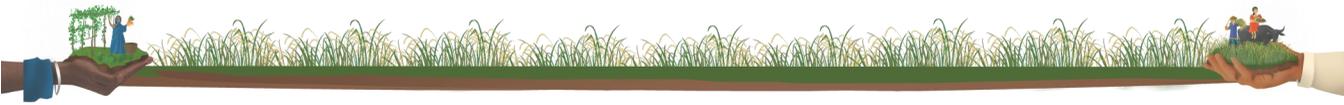
Role of credit in agricultural development of smallholder farmers

According to the Central Bureau of Statistics (BPS), the agricultural sector contributes significantly to Indonesia's gross domestic product (GDP). Agriculture is also the only sector of the main buffer of GDP that grew positively throughout 2020 (Timorria, 2020). The contribution of the agriculture sector has an effect on the economic growth of the people in Indonesia, especially in the second quarter of 2020 where the contribution of agriculture rose to 15.6 percent compared to the contribution in the first quarter of 2019 of 13.57 percent (BPS, 2020). By 2021, the agriculture sector will contribute 13.7 percent to Indonesia's GDP.

The contribution is also accompanied by an increase in the quantity and quality of agricultural products. Increasing the quantity and quality of production requires capital increase. In this case, it is necessary for certain institutions to support the development of agricultural contributions by distributing credit to the agricultural sector, especially credit for small farmers in Indonesia. Thus, it can be interpreted that credit plays a role in the development of the agriculture sector, especially agriculture in Indonesia.

Role of credit in agricultural development of Indonesia

The strategic plan of the Ministry of Agriculture outlines its main objective in national development for the period 2010 to 2014 as the achievement of self-sufficiency and sustainable self-sufficiency with the focus on five nationally superior commodities, namely: a) rice; b) corn; c) soybeans; d) sugar; and, e) beef. In this case, rice is also a strategic commodity and becomes a national priority in the RPJMN (National Medium Term Development Plan) 2020 to 2024. However, in agricultural development, especially rice crop development, farmers often experience problems especially in increasing production such as: the ongoing process of land conversion; the tendency of rice productivity to stagnate; increasingly limited production facilities; and, lack of capital for farmers.



Farmers' ability to finance their own farming business is limited, which leads to their productivity staying below potential. Other problems faced by small farmers are limited land ownership, high wages, and low employment opportunities during off-season. Most farmers are unable to meet their costs of living from season to season without resorting to loans. Furthermore, the climate crisis affects the development of the agriculture sector.

Small farmers face various challenges in Indonesia, including limited access to business services, especially the availability of working capital for the productivity and welfare of farmers. Farmers need capital assistance support in the form of loans to overcome these problems. Thus, credit is a breath of fresh air for small farmers in Indonesia, especially regarding capital for farming.

Within the context of farming, credit is referred to as agricultural credit, which is distributed to the agricultural business sector, such as livestock and plantations (Bengi, 2019). This credit can be distributed to small farmers in the countryside. Agricultural credit is not merely a driving factor in agricultural development. It is also a critical point of agricultural development (Syukur et al. in Ashari, 2009). For farmers, it allows one to gain access or expand control over resources (Directorate of Financing in Ashari and Friyatno, 2006).

Rice farming provides jobs and various income sources for around 21 million farm households (Swastika, 2007). One research found that rice productivity in Indonesia experiences an upward trend every year, but the climb tends to slow down (Abubakar, 2020). It is also said that productivity in the rice sector can only be achieved by increasing the number of inputs or implementing new technology. Additional inputs or implementation of new technology will be followed with increased capital, either owned or loaned (credit). This capital is very much needed in economic development, and credit is the answer to the difficulties in obtaining capital.

According to BPS in 2015 (in Abubakar, 2020), 90.6 percent of rice farmers use their own funds in running their businesses, while 9.4 percent use loans from financial institutions (banks, BPR, cooperatives, and other financial institutions) and individuals (moneylenders). In a research study by Darwis (2020), rice farmers who receive credit have higher productivity than those without credit in Java, meaning that the role of credit is important for small rice farmers.

Research by Feryanto (in Ashari et al., 2020) stated that credit affects the increase in farmers' incomes. Ashari (2009) said that credit propels agricultural development by: a) helping small farmers in overcoming capital limitations with relatively light interest; b) reducing the dependence of farmers on intermediary traders and releasing money so that it can play a role in improving the structure and pattern of marketing agricultural products; c) income transfer mechanisms to encourage equity; and, d) incentives for farmers to increase agricultural production.



In Indonesia, there are many institutions that are involved in agricultural credit, especially in its distribution, ranging from government institutions to financial institutions in the village. In distributing KUR or agricultural credit, the government works with 46 KUR distributors consisting of government banks, private banks, BPD, financing companies, and savings and loans cooperatives (KSP). The KUR program is also supported by 10 credit guarantee agencies. In order to safeguard Good Corporate Governance in KUR distribution, the government also works with the Financial Services Authority (OJK) and the Finance and Development Supervisory Agency (BPKP).

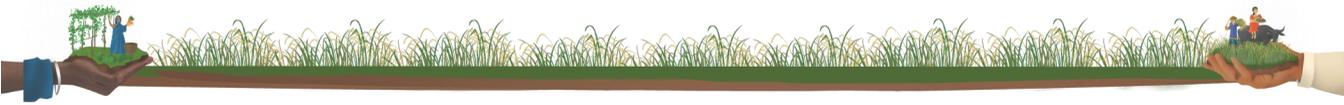
Policy environment on government agricultural credit

Various policies have been issued to improve the rice production of small farmers, such as building irrigation; subsidies for seeds, fertilizers, and pesticides; subsidized agricultural credit; and, training on farming. The government has also issued a basic grain price or government purchase base price to protect farmers from instances when the prices drops below production cost. The government has also implemented an import policy to fulfil increasing domestic needs and ensure that the price of rice is affordable for most consumers. The economic crisis in 1998 when food security was threatened due to increasing price of rice has caused Indonesia's policy on rice to still be based on production targets (Damita and Sujianto, 2013).

The increase in rice productivity target can only be achieved by adding more inputs or implementing new technology, which is always followed with more capital, from either the farmers or credit. Capital is a classic problem in development. Agricultural credit from banking can become an important landmark in improving the economy of small farmers in the agriculture sector.

After Indonesia's independence, the government provided assistance in the form of credit programs for farmers. These credit programs, which support the implementation of certain programs, are very dynamic in accordance with the target (commodities or credit beneficiaries), procedure, time span, and establishment of program success indicators. These credit programs have an agenda to achieve national rice self-sufficiency (Ashari, 2009). These credit programs are followed with policies on credit by the government that have started since the beginning of the New Order era or around 1973, which began with the Bimas credit policy.

Based on the credit policies from 2015 to 2020, the government provided financing for MSMEs that was previously under the guarantee services (IJP) scheme to the interest/margin subsidy scheme, where the government bears some interest borne by debtors (MSME owners or farmers). This interest subsidy is given based on the subtraction of credit interest rate with the interest rate borne by debtors or beneficiaries (farmers and MSME owners).



Besides focusing on reducing the interest rate of KUR in the 2015 to 2020 period, the government also focused on distributing KUR to the production sector because KUR had been mostly distributed to debtors in the trading/retail sector. Therefore, the Policy Committee in January 2017 decided to target at least 40 percent of KUR distribution to the production sector (agriculture, fisheries, processing industry, construction, services, and others).

In 2018, the government committed to improve KUR distribution for paddy dryer procurement. This scheme was prioritized for small milling businesses with productive and adequate activities. The distribution of KUR for rice milling and Indonesian rice entrepreneurs (*perpadi*) involved the National Logistics Agency (Bulog), which plays a role in absorbing the harvest of *perpadi*. This KUR distribution for the paddy dryers used the KUR Kecil scheme with the limit at IDR 25 million to IDR 500 million (approximately USD 1,700 to USD 35,000).

In 2020, the optimization of KUR utilization kept increasing every year, and its ceiling increased to IDR 190 trillion (approximately USD 13.357 billion). The KUR policy in 2020 was also made to expedite the development of MSMEs and to coincide with the release of the Job Creation Bill. The policy went through several changes that provided more benefits to the people, such as lowered interest rate from seven to six percent, increased KUR Mikro ceiling from IDR 140 trillion to IDR 190 trillion (from USD 9.842 billion to USD 13.357 billion), which will also be increased to IDR 325 trillion (approximately USD 22.848 billion) by 2024, and increased KUR Mikro ceiling from IDR 25 million to IDR 50 million (from USD 1,800 to USD 3,500) per beneficiary or, in this case, per farmer/farmers business (KUR website).

In 2021, the KUR policy is a part of the national economic recovery efforts, as stipulated in Regulation of the Coordinating Minister for Economic Affairs (Permenko Perekonomian) No. 6/2020 as amended with Permenko Perekonomian No. 3/2921 on KUR special treatment during the COVID-19 pandemic. The government has prepared agricultural KUR of IDR 70 trillion (approximately USD 4.921 billion) out of IDR 253 trillion (approximately USD 17.786 billion) in total.

The absorption realization of the agricultural KUR has so far reached IDR 426 trillion (approximately USD 29.949 billion) or 60.8 percent. While the distribution of agricultural KUR for the paddy subsector in 2021 is IDR 7.8 trillion (approximately USD 548 million) (Coordinating Economic Affairs Minister, 2021 in Harahap, 2021). This policy also enforces extension of additional interest/margin subsidy for KUR debtors whose businesses were affected until 31 December 2021.

Postponement for installment payment and extension of loan term as well as raised credit ceiling are also given to debtors, including farmers.

Government credit program for small farmers

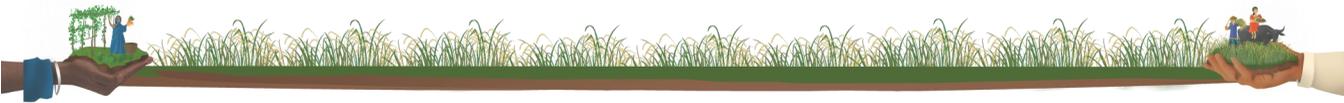
Rationale for choice of BRI-KUR

BRI-KUR was selected for this research because out of various agricultural credit programs in Indonesia, BRI has the highest number of debtors and loan ceilings. The table below lists the banking and non-banking institutions appointed by the government to distribute KUR in Indonesia.

Table 5. People's Enterprise Credit Distribution

No.	Distributor	Total Distribution of KUR		No.	Distributor	Total Distribution of KUR	
		Ceiling (IDR)	Number of Debtors			Ceiling (IDR)	Number of Debtors
1	PT. Bank Rakyat Indonesia (Persero), Tbk.	58,397,886,002,269	2,093,475	24	PT. BPD Sulselbar	29,779,840,000	359
2	PT. Bank Mandiri (Persero), Tbk.	13,102,218,299,000	135,538	25	PT. BPD Sumut	239,427,000,000	2,942
3	PT. Bank Negara Indonesia (Persero), Tbk.	9,901,483,435,120	100,326	26	PT. BPD Sumatera Barat (Bank Nagari)	533,578,500,000	3,900
4	PT. Bank Tabungan Negara (Persero), Tbk.	61,805,100,000	222	27	PT. BPD Sumatera Selatan Babel	234,649,400,200	5,077
5	PT. Bank Central Asia, Tbk.	77,495,844,077	569	28	PT. BPD Jawa Barat dan Banten, Tbk.	375,796,259,380	2,829
6	PT. Bank Bukopin, Tbk.	-	-	29	PT. BPD Kalimantan Selatan	76,479,500,000	917
7	PT. Bank Maybank Indonesia, Tbk.	11,150,000,000	24	30	PT. BPD Riau Kepri	266,823,000,000	2,148
8	PT. Bank Sinarmas, Tbk.	240,591,964,500	852	31	PT. Bank NTB Syariah	-	-
9	PT. Bank Permata, Tbk.	3,026,000,000	13	32	PT. BPD Lampung	69,573,000,000	1,829
10	PT. BTPN, Tbk.	-	-	33	PT. BPD Papua	7,749,100,000	93
11	PT. OCBC NISP, Tbk.	-	-	34	PT. BPD Bengkulu	19,378,000,000	111
12	PT. Bank Artha Graha Internasional, Tbk.	-	-	35	PT. BPD Kalimantan Timur Kalimantan Utara	57,983,500,000	591
13	PT. BRI Syariah, Tbk.	1,981,802,985,054	32,272	36	PT. BPD Jambi	33,600,000,000	341
14	PT. BRI Agroniaga, Tbk.	13,061,251,000	97	37	PT. BPD Jateng	1,067,544,000,000	7,600
15	PT. Bank CTBC Indonesia	-	-	38	PT. BPD Sulawesi Tenggara	15,755,680,000	110
16	PT. Bank Nationalnobu, Tbk.	1,796,000,000	433	39	PT. BPD Kalimantan Tengah	9,010,168,740	75
17	PT. Bank Mandiri Taspen	13,727,000,000	342	40	PT. Bank SulutGo	23,570,708,704	427
18	PT. BNI Syariah, Tbk.	602,305,783,810	3,183	41	PT. BPD Jawa Timur, Tbk.	-	-
19	PT. Bank Syariah Mandiri	45,061,000,000	396	42	PT. Internusa Tribuana Citra Multi Finance	1,119,024,000	790
20	PT. BPD Bali	292,263,000,000	2,796	43	PT. Indosurya Inti Finance	-	-
21	PT. BPD Kalimantan Barat	83,455,600,000	707	44	PT. First Indo American Leasing	-	-
22	PT. BPD NTT	-	-	45	Koperasi Obor Mas	1,300,418,056	56
23	PT. BPD DIY	133,509,500,000	1,997	46	Koperasi Kosipin Jasa	32,465,202,004	961
				47	KSP Guna Prima Dana	5,357,000,000	151
				Total		88,089,649,286,914	240,549

Source: KUR data (30 April 2021)



As quoted from the KUR's official website, the KUR program is one of the government's programs that aim to increase access for MSMEs to funding distributed by financial institutions under a guarantee scheme. The KUR program is intended for strengthening capital in order to implement the policy of accelerating the development of the real sector and UMKM empowerment (KUR, 2016a).

KUR has a relatively low interest of six percent per year because it is a program of the government. Farmers make use of KUR to obtain funding assistance as initial capital for farming. The distributors of KUR include not only State-owned banks, but also private banks.

Furthermore, BRI's KUR target in 2021 is higher compared to other banks at IDR 70 trillion (approximately USD 4.921 billion), targeting farmers and agribusiness owners. BRI is also expanding financial access for the public through BRILink, which is located in all villages, even the remote ones, so that people can conduct transactions anytime and anywhere, including paying KUR.

As one of the largest State-owned banks, BRI offers KUR with easy requirements and fast process. The maximum credit that customers can apply for is IDR 50 million (approximately USD 3,500), with flexible installments up to 24 months. Customers must submit an ID card, family card, and business license through online registration. They will then receive their credit in one day.

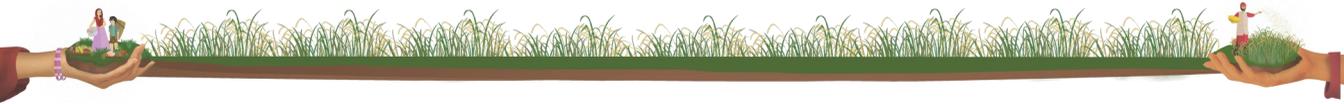
This is in line with the statements by farmers who have received KUR that BRI provided convenient services for farmers in applying for credit or if there was a delay in the installment payment. First, the collateral requirements are not required in the form of house or land ownership certificates. Second, if debtors are late in paying their installment, BRI will use a softer approach compared to private banks or cooperatives. Third, there is a new payment scheme, called the pay-harvest payment, which is an excellent innovation for farmers.

Description of BRI-KUR agricultural credit

● Objective of BRI-KUR program

BRI-KUR Agricultural Credit is one of the agricultural credit programs in the form of business capital loan distributed by Bank BRI. The program helps farmers in running their farm. The application for KUR-BRI can be conducted online (via kur.bri.co.id) without having to go to the bank.

Based on the FGD with banks, the overall aim of the agricultural KUR is to provide farmers with capital to expand their business. This is supported by the 2020 Credit Program Handbook, which mentions several goals of KUR, namely: a) provide reference for stakeholders at the central and regional level in distributing KUR to the agricultural sector; b) improve KUR distribution to farmers, farmer groups, the association of farmer groups (Gapoktan), and other agribusiness owners; c) support the programs implemented by the Ministry of Agriculture (food crops, horticulture,



plantations, and others); and, d) help expand work opportunities in the agriculture sector.

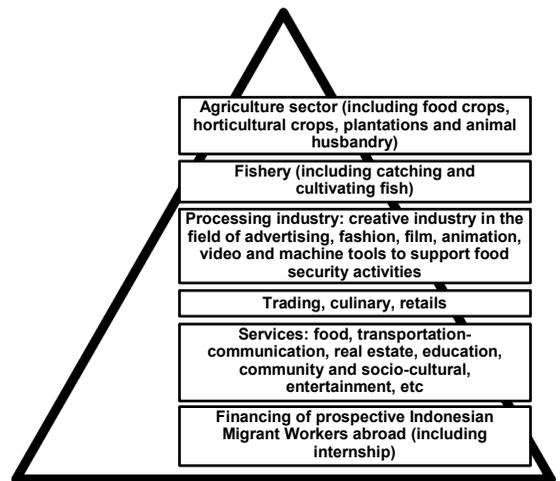
Based on BRI's bookkeeping records up to the end of the second quarter, BRI has distributed credit worth IDR 117.54 trillion (approximately USD 8.206 billion) to the agricultural sector, which is an increase of 12.8 percent compared to the same period last year. Until March 2021, the total amount of agricultural credit distributed by BRI reached 28.03 percent of the national agricultural credit. BRI has reached 40,798 customers with credit distribution up to IDR 4.1 trillion (approximately USD 287 million) by June 2021.

● Coverage of program

KUR program is a partial government-guaranteed credit program intended to assist “feasible yet unbankable” (lack of collateral) SMEs’ access to banking loans (Adam & Lestari, 2017). KUR is designed to enhance capabilities of individuals or SMEs to access the banking loans in improving their competitiveness. It was established in late 2007 (5 November 2007) by the government enacted Presidential Instruction No. 6/2007 on Acceleration of the Real Sector Development and MSME Empowerment and it involved three parties: the Indonesian government (Ministry of Finance and other technical ministries); participating banks; and, credit guarantee companies (CGCs). The funding for KUR comes from banking funds or financial institutions that distribute KUR. The coverage of the KUR program is divided into three categories:

- a. Micro KUR: up to IDR 25 million
- b. Retail KUR: IDR 25 to 500 million
- c. KUR TKI (Indonesian workers): up to IDR 25 million (placement to Asian countries)

The BRI-KUR program covers all regions in Indonesia as BRI has programs that are able to reach remote areas.

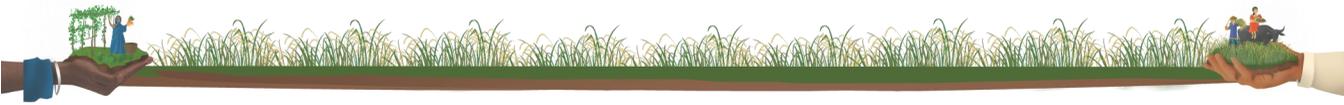


Source: <https://kur.ekon.go.id/>

● Clientele (target and actual)

Recipients of the BRI-KUR program are individuals (farmers) or farmer groups. The program aims to spend IDR 170 trillion (approximately USD 11.92 billion) in 2021. Up until the second quarter, the BRI has distributed IDR 117.54 trillion (approximately USD 8.206 billion) in credit to the agriculture sector.

The program does not specifically target small farmers. As explained in the KUR Technical Guide Book, the definition of farmer is an Indonesian citizen that manages business in the agriculture sector that includes the upstream, on farm, and downstream.



● Types and amounts of loans and other financial assistance

The BRI-KUR program for agriculture is one of the programs by the Ministry of Agriculture to make it easier for farmers to gain capital for farming. The KUR for the agricultural sector, or often called KUR Mikro, has several requirements, namely: a) every debtor has a maximum credit limit of IDR 25 million to IDR 50 million (approximately USD 1,700 to USD 3,500); b) annual interest rate of six percent or 0.41 percent per month; c) no provisions or administration fee; and, d) maximum term of three years for working capital credit (KMK) and five years for investment credit (KI).

Based on the information from kur.bri.co.id, the requirements for debtors of agricultural KUR are: a) farmers (individual), farmer groups, Gapoktan, cooperatives, and business group; b) own business in the agricultural sector whether upstream, cultivation, or downstream that has run for at least six months; c) not currently receiving credit/funding from other banks or the government, as proven by the result of Debtor Information System (SID);² d) administrative requirements include ID card, family card, business certificate from the village government³; e) prepare collateral, such as BPKP or land certificate in accordance with the bank provision; and, f) debtor must be at least 21 years old or married.

Business in the agriculture sector or agribusiness consists of: a) upstream subsystem [economic activities that produce agricultural inputs such as fertilizers, pesticides, and farming machine]; b) primary farming subsystem [cultivation]; c) downstream subsystem [manage and market agricultural commodities, such as rice milling, procurement and marketing of agricultural products]; and, d) supporting subsystem [supporting services such as technology and capital] (psp.pertanian.go.id).

● Support service

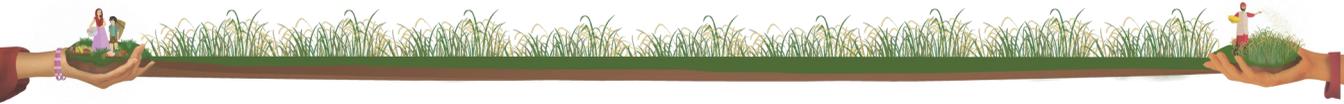
The BRI-KUR program only provides two types of capital loan services, namely KMK for farmland cultivation and KI for purchasing farming tools. Capacity building for farmers, such as how to manage their finances and develop their farm, is not included in the BRI-KUR benefit.

● Repayment rates

BRI provides two payment options that can be agreed with the debtors, namely monthly installment or payment after harvest (based on the cultivated plant). For example:

² However, if the debtor is currently receiving consumptive credit (house credit, vehicle credit, credit card, and other consumptive credits), they can still receive KUR.

³ If the individual is a member of a business or farmer group, a recommendation letter from the Chairperson of the farmer organization is required.



- a. Debtors or farmers borrow IDR 20 million to IDR 500 million (approximately USD 1,402 to USD 35,095), they choose to pay monthly installments with a term (12 to 36 months).
- b. Debtors or farmers borrow IDR 20 million to IDR 500 million (approximately USD 1,402 to USD 35,095), they choose to pay installments after they finish harvesting; for instance, after rice is harvested once in six months, then s/he will pay for 12 to 36 months.

In 2020, BRI has claimed that the repayment rate of KUR financing is well-performed at 88 percent with the ratio of non-performing loans (NPL) of KUR BRI is still very low at only 0.06 percent.

● **Sanctions for non-repayment of loans**

The common sanctions for Non-Performing Loan (NPL) are to confiscate the debtor's assets by the bank. In the KUR program, the policy for NPL has been designed to be more MSMEs-friendly. If the NPL is caused by a disaster, the concern of the risk of default on KUR will be covered by the guaranteed institution that has been established by the government (80 percent) and will be carried over by the linkage banks (20 percent) with some follow-up schemes.

In handling debtors who are late in paying their credits, BRI will usually give a warning first and conduct restructuring and rescheduling. In restructuring, the bank and debtors can readjust the credit to the debtor's earnings so that the debtor can repay the credit, while in rescheduling, the debtor has the option to change the due date for payment. Before rescheduling, the debtor will usually be given a warning first. Rescheduling is the last resort for debtors who cannot pay their credit on time. If debtors are still not able to pay their credit, the bank will confiscate their collateralized assets and the debtors will not be able to obtain capital credit from the banks registered in BI Checking.

● **Credit channel**

The BRI-KUR program grants loans to debtors through 10,396 BRI branches in Indonesia. In addition, BRI has a service without an office, BRILink, which can help debtors pay deposits per month without having to go to the bank. In 2019, there were 422,160 BRILink agents in Indonesia including in rural villages (Republika.co.id, 2019).

Impact of COVID-19 pandemic on BRI-KUR agricultural credit program

The COVID-19 pandemic has affected the agricultural sector, especially vegetable commodities, livestock, and some agricultural products. The impact experienced by farmers during the pandemic should have received the attention of the government because the agricultural sector has a very important role in supporting the economy at the time of the pandemic. This is because the agricultural sector is a supporting sector of food security. This opens the opportunity for the agricultural sector to be revitalized so that it can contribute significantly to the national economy.



However, the pandemic has negatively affected farmers' income. Therefore, farmers, especially the vulnerable ones, need capital to make sure that they can still fulfill their needs. During the pandemic, market access of small farmers was increasingly limited and products could only be sold in the local market at a relatively cheap price. In addition, prices of other needs also increased, including the prices of agricultural inputs, which caused farmers to become even more vulnerable. This is also supported by data from the BPS (2020) which showed the NTP of farmers in August 2020 decreased by 1.98 percent compared to July 2020.

The decrease in farmers' income due to the COVID-19 pandemic affects the return of their loans if they are customers of financial institutions. It will also be more difficult for farmers to get credit from financial institutions (banking/non-banking) because financial institutions will be more careful in distributing credit.

Table 6. Conditions of rupiah working capital loans and foreign exchange for agricultural, forestry and fisheries business groups for the period of April 2019 to June 2020 (IDR billion)

Month	Bank Persero (Company Bank)	Bank pemerintah (Government Bank)	Bank swasta nasional (National Private Bank)	Bank perkreditan rakyat (People's Credit Banks)
June 2019	77,463	8,220	53,502	5,909
July 2019	77,840	8,128	54,145	5,873
August 2019	78,124	8,142	54,884	5,972
September 2019	80,095	8,270	56,663	6,082
October 2019	79,013	8,282	54,180	6,083
November 2019	82,274	8,302	55,613	6,107
December 2019	80,731	8,302	55,613	6,107
January 2020	80,017	7,693	52,751	6,107
February 2020	83,017	7,810	54,856	6,107
March 2020	84,755	7,902	59,518	6,107
April 2020	85,091	7,869	59,222	6,107
May 2020	84,755	7,804	56,485	6,107
June 2020	88,757	7,556	57,582	6,107

Source: Bank Indonesia (2020)

From the table above, it can be seen that banking credit for the agricultural sector from *persero*⁴ banks, government banks, national private banks, and people's credit banks (BPR) did not experience significant changes or tended to be constant during the COVID-19 pandemic. Credit growth, which slowed overall in 2020, was also recorded in the survey at 2.5 percent compared to credit realization in 2019 of 6.1 percent.

To encourage MSMEs and farmers to try to farm during the COVID-19 pandemic, the government established a National Economic Recovery Program (PEN) that contains capital assistance components. The capital assistance policy is not only distributed to farmers individually but also to institutions owned by farmers that already exist in the countryside whose members are farmers. The direct assistance for farmers is distributed in the form of grants by the Agribusiness Microfinance Institution (LKMA). In 2021, the realization of KUR peaked at IDR 25.5 trillion (approximately USD 1.8 billion) on 25 July 2021.

⁴ Companies that have joint capital divided over shares (shareholder liability is limited to nominal shares owned).



In response to the COVID-19 pandemic that impacts MSMEs, the government has enacted several policies (April 2020 to December 2021), such as: a) additional interest subsidy of six percent which removes the interest that KUR debtors must pay until December 2020; b) postponement of KUR distribution target to the production sector from 2020 to 2021; c) KUR relaxation through deferment of principal installment and ease of KUR restructuring administration; and, d) extension of additional KUR interest/margin subsidy of three percent from 1 January to 31 December 2021.

The above policies aim to ease the burden of KUR debtors. The government will bear payment of KUR interest of six percent, in addition to relaxation of KUR interest payment until the end of the year. The fund prepared for this policy is IDR 6.1 trillion (approximately USD 429 million). Furthermore, the government temporarily removed some requirements needed to apply for KUR, such as business license, taxpayer ID, and additional collateral documents. Prospective debtors can also access KUR online.

The portion of KUR distributed to the agricultural sector increases every year, totaling IDR 41.89 trillion (approximately USD 2.945 billion) from the beginning of 2021 to 24 July 2021. The amount is dominated by the palm oil plantation subsector of IDR 9.5 trillion (approximately USD 668 million), followed by the rice farming subsector of IDR 7.8 trillion (approximately USD 548 million) and other plants and forestry subsector of IDR 5.5 trillion (approximately USD 387 million). Besides that, the government promotes the acceleration of funding in the agricultural sector by encouraging a synergy of stakeholders. This is done by, among others, encouraging banks or credit distributors to increase KUR distribution to agricultural commodity group by partnering with large companies as off-takers.

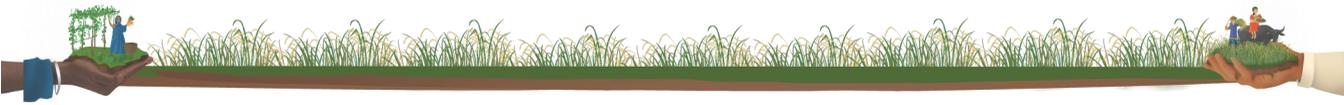
Credit needs of smallholder farmers

Credit requirements of smallholder farmers

The MSME Financing Policy Committee reported that the KUR ceiling in 2019 increased to IDR 140 trillion (approximately USD 9.842 billion) from the previous year, which was IDR 123.8 trillion (approximately USD 8.703 billion). Around 60 percent was allocated to agriculture, industry, fisheries, services, and construction. The KUR for the agricultural sector in 2021 increased to IDR 70 trillion (approximately USD 4.921 billion) from IDR 50 trillion (approximately USD 3.515 billion) in 2020. The allocation of KUR for the agricultural sector is aimed to drive farmers to gain access to financing for their farming (Hayati, 2021).

The accomplishment of KUR in 2020 reached IDR 55.9 trillion (approximately USD 3.9 billion), above the targeted loan amount. On the other hand, the NPL⁵ rate in the agricultural sector was quite low, at 0.6 percent of the KUR loan value. Meanwhile, KUR absorption rate included the plantation sector (IDR 18 trillion or approximately

⁵The condition of the loan with the condition of the debtor failed to make payments scheduled for a certain period of time.



USD 1.3 billion), food crops (IDR 16.2 trillion or approximately USD 1.1 billion), horticulture (IDR 7 trillion or approximately USD 490 million), livestock (IDR 10.6 trillion or approximately USD 745 million), farming services (IDR 779 billion or approximately USD 55 million), and mixed farming (IDR 3.1 trillion or approximately USD 218 million). These numbers spread across several provinces, including East Java (IDR 12.2 trillion or approximately USD 858 million), Central Java (IDR 8.8 trillion or approximately USD 619 million), South Sulawesi (IDR 4.2 trillion or approximately USD 295 million), West Java (IDR 3.5 trillion or approximately USD 246 million), and Lampung (IDR 3 trillion or approximately USD 211 million).

The absorption rate was supported by banks that issued regulations related to credit grants. Various credit requirements for small farmers include: a) investment, such as rice field irrigation; b), production, such as production and work force inputs; c) consumption, such as family needs before harvest time; and, d) trade and working capital, such as to get the best price for yields.

The requirements of KUR for farmers that are handled by BRI (2021) are generally the same as other credit requirements. First, credit applications must be submitted individually. Second, credit applicants must have a business of six months old at the minimum. Third, credit applicants must not have debts from other banks, except for consumptive credit, such as credit card, housing credit (KPR), and, motor vehicle credit (KKB). Fourth, credit applicants must provide guarantees, such as BPKB or land certificates as decided by the bank. Fifth, credit applicants must submit administrative documents, such as ID card, family card (KK), and, business certificate from the village government (SKU KUR) (Dewi, 2021; Oleh, 2021).

Even though the requirements are quite general, not all credit for the interest mentioned above are immediately accepted and handled by chosen government credit programs. For instance, BRI does not provide loans to small farmers for consumption needs.

"Farmers can receive KUR as long as they use it for business capital. The fund allocation targets entrepreneurs in the agricultural sector, both in groups and individuals," said Agriculture Minister Syahrul Yasin Limpo (Hayati, 2021).

BRI also processes KUR for production and business purposes. For production purposes, the specific requirement is credit applicants must have a business that has been in operation for at least six months. For debtors who apply for MSME KUR, one of the requirements is that their business must be already registered in one of the e-commerce platforms, such as Shopee, Tokopedia, and others, and/or transport providers like Gojek or Grab. For business purposes that include trade and working capital to gain the best interest after harvest, the requirement is for farmers who access KUR Kecil.

Regarding the procedure for unsecured KUR, farmers can apply online through <https://kur.bri.co.id/>. In order to access the KUR BRI registration page, farmers must have an account which needs an email address for verification. In the



application form, farmers need to fill in information regarding their personal and business profile as well as upload documents, such as the application data. If the form has been verified and inserted to the bank's system, the bank will conduct a validation to determine the next actions.

Meanwhile, BRI cannot grant credit to farmers with multiple loans from other banks. Farmers who apply for KUR at BRI will be rejected if it is confirmed that they receive credit from other banks for the same purpose. For instance, if a farmer has received credit from another bank for production purposes, such as paying workers, then BRI will not approve the farmer's KUR application for the same purpose. However, there are exceptions to this regulation. If a farmer has consumptive credit from another bank, BRI can still consider accepting their KUR application after validating their data.

The procedure to pay KUR installment is conducted gradually. In the first phase of KUR, installment is paid by farmers two times in a year. After that, in the second phase, farmers can still pay a monthly installment.

"In the first KUR loan, I borrowed IDR 15 million (approximately USD 1,052) and paid in two installments within the year. In the next KUR, I can pay every month. With IDR 10 million in loan (approximately USD 700), the monthly installment is IDR 600,000 (approximately USD 42) to be paid in 18 months." (Member of KWT Jatipuro)

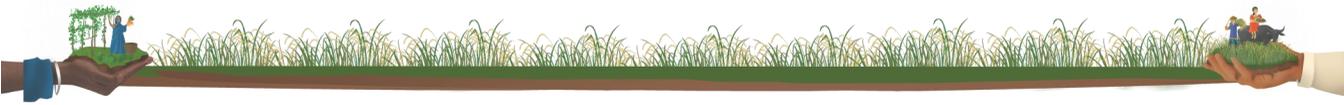
On the other hand, in its implementation, small farmers are struggling to meet the credit requirements, especially those related to the installment payment period for small farmers who do not have many sources of income. They often meet the due date for payment before harvest time, causing them to be in arrears.

Agricultural produce cannot be considered as a steady source of income to pay the KUR installment. Furthermore, they may also experience crop failure or a fall in crop prices. During this type of situation, the knowledge created from organizational experience influences the emergence of strategy to develop economic sources. For instance, a member of Gapoktan Ngudi Makmur not only runs a farm, but also breeds cattle and builds other businesses. This is useful for helping them pay their KUR installment.

"I not only manage a farm. I also have other businesses. If my farm fails, I still have other sources of income." (Gapoktan member)

"I hope there will be a KUR that can be paid according to the harvest time." (Male beneficiary informant)

One of the female beneficiary informants said that the installment payment per month already suits her capability. She felt that the monthly method was difficult compared to paying per semester. The low interest also made it easier.



KUR is not only used for capital in the agricultural sector. It is also used by debtors to open up a grocery shop to pay for children's education. It is also often used to cover social needs in the community, especially when there is a local celebration or other community activities that need donations.

Factors limiting the access of smallholder farmers to credit

Access of small farmers to credit is still limited due to various factors:

- **The hard administrative requirements and procedures**

To access KUR, prospective debtors must meet the administrative requirements according to the procedures of the credit distribution institution, namely the bank. In the process, this requirement still needs to be made easier for small farmers. Several cases were found that the administrative requirements of KUR became one of the challenges for small farmers in accessing KUR, namely:

First, KUR administrative requirements need to be eased for small farmers. In referring to the definition of small farmers, Sajogyo (1977) notes small farmers are farmers who have land of less than half a hectare, while the amount of land affects access to capital. In addition, some smallholders have not yet certified their land for collateral.

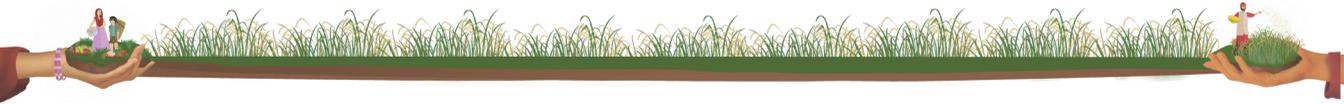
Second, farmers obtain different information regarding the collateral that they have to prepare. Information from the central government say that for loans under IDR 100 million (approximately USD 7,000), collateral is not needed. However, in reality, farmers who apply for loans of IDR 3 million to IDR 4 million (approximately USD 210 to USD 280) are required to give collateral.

"Based on the information from the central government, collaterals are not required for loans less than IDR 100 million (approximately USD 7,000). However, when applying for loan around IDR 3 million or IDR 4 million (approximately USD 210 to USD 280), collaterals are required." (Mitra Tani Jatipuro)

Third, credit still requires collateral even though the loan is not more than IDR 10 million (approximately USD 700). This makes things difficult for small farmers who have nothing to be used as collateral. Their production tools are also usually limited and used for farming. Therefore, it is impossible to submit them as collateral. Besides, most farmers in regional areas have no land or vehicle to be used as collateral. This also causes young farmers to not be able to apply for KUR because they also have no insurance.

"In terms of collaterals, at least vehicles or certificates. If the loan is around IDR 1 million to IDR 2 million (approximately USD 70 to USD 140), we can arrange for no collateral. However, most people submit BPKB as collateral. If possible, loans under IDR 10 million (approximately USD 700) should not require submitting collaterals." (in-depth interview, male farmer, 28 years old)

"The loan is difficult to be accessed by young farmers because they have no capital." (in-depth interview, male farmer, 35 years old)



Fourth, installment payment requirements are not in accordance with the harvest time and no information is given regarding sanctions. The policy that requires KUR payment with predetermined payment time from the bank is sometimes difficult to implement because it is not in accordance with the harvest time. There is also no information on sanctions for farmers who are late in paying installment.

"Bank employees will look for you if you are late in paying KUR installments even though it is just one to two days." (Mitra Tani Jatipuro)

Fifth, the absence of takeover credit in KUR is considered by farmers to be less helpful in overcoming their needs. Farmers are not allowed to transfer credit to other banks with lower interest rates. In addition, this is related to the policy that farmers cannot take two or more types of KUR except consumption credit; sometimes it becomes an obstacle for farmers who want to increase agricultural production as well as their trading business. They are also restricted from being able to borrow from other banks. The BI Checking system as a control of loan turnover to credit providers ultimately causes the phenomenon of farmers borrowing from informal microfinance institutions. There are also those who choose to borrow from relatives or cooperatives, even though the interest rates are quite high.

Overall, the KUR debtors hoped to ease administrative installments of KUR:

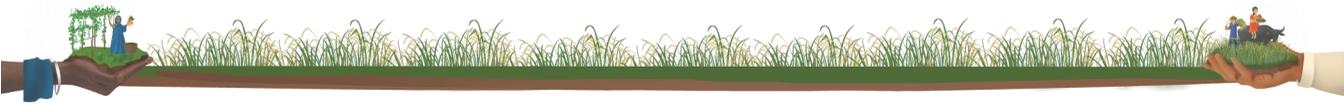
"We hope that the credit applications can be made easier, especially the collateral requirements are reduced, and if possible the interest is reduced" (group interview, farmer organization, Jatipuro)

● Uneven KUR socialization

In the implementation of agricultural KUR, the task of conducting socialization is carried out by the local government together with the channeling bank. The local government is tasked with facilitating socialization activities, while the bank is in charge of conveying information on the implementation of KUR techniques. Based on the interviews that have been conducted, there are at least several stages of socialization carried out by local governments, namely, at the provincial level, at the district level, and at the village level.

The implementation of KUR socialization at the provincial level is facilitated by the provincial agriculture office in coordination with the bank and addressed to district level OPDs within the province (interview with the Central Java Provincial Agriculture Office). Meanwhile at the district level, the socialization is addressed to representatives of farmers, while at the village level it is organized by the *pemdes* (village government), presented by the bank and inviting the surrounding farming community (interview with the Karanganyar Regency Agriculture Office).

In addition, socialization is only done once, namely, at the beginning of the fiscal year and not carried out on a massive scale. Thus, the tiered flow of information, minimal intensity, and limited level of socialization cause differences in the understanding of the information received by farmers.



There is an unequal KUR dissemination to all farmers. During the dissemination of KUR, the participants were limited to farmers who registered for agricultural KUR and already have a BRI account. This could reduce the involvement of small farmers in accessing KUR, especially for farmers' families who do not have an account with the bank. The dissemination process itself is also merely for administrative matters, causing its implementation to be not optimal.

"Dissemination of KUR is not enough. They usually only give flyers." (in-depth interview, male farmer, 35 years old)

● The distance to banking facilities

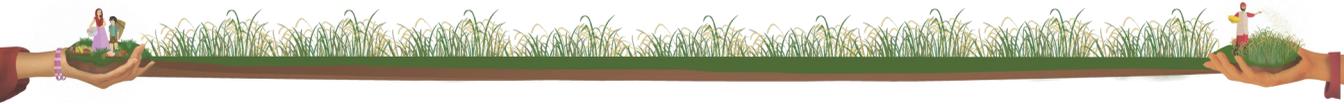
Geographical factors related to the distance between houses and banking facilities cause farmers to prefer other financial institutions. For example, in the findings of our interviews with farmers who do not access KUR, a farmer who is also a village official chooses to access credit from cooperatives and non-formal microfinance institutions because the bank is far from his home. Some farmers also choose to borrow from informal microfinance institutions because they do not have to travel far outside the village to apply for credit at the bank. The officers of the informal microfinance institutions will come to them to provide loans. They chose it even though the interest rate given was high enough to reach three times the KUR interest rate.

● Literacy of farmers

The low level of literacy affects farmers' access to information on the use of KUR. This is partly due to the low level of education of farmers. According to 2018 BPS data, 766,954 farmers (9.65 percent) have never attended school, while 10,358,754 (26.54 percent) have not graduated from elementary school. Elementary school graduates make up 15,023,269 (38.49 percent) of the farmers, junior high school graduates, 6,330,800 (16.22 percent), high school graduates, 332,106 (8.54 percent) and college graduates and those with diplomas and bachelor's degrees, 223,809 (0.57 percent). In other words, farmers in Indonesia are dominated by elementary school graduates. This low level of education affects farmers in accessing information.

Information that is currently spreading through cyberspace has not fully become part of the daily consumption of some farmers. Not every farmer has a device or is technology literate to access digital information. As a result, they prefer alternative institutions such as informal microfinance institutions that carry out door-to-door promotions. In comparison, banks are more likely to promote KUR through digital media.

On the other side, *internal* factors from the farmers lead to an assumption that there is no relation between KUR and the increase in their farming yields. Even though KUR requirements are considered easy, they think KUR does not affect the number or result of production. The results gained by farmers depend on their management. There are also concerns over crop prices that can drop suddenly and not paying KUR in time.



"The benefit is more like capital because the results of farming depend on the situation. KUR has no influence on production results, depending on the farmers' management." (Agricultural Extension Worker [PPL])

The lack of literacy of farmers affects the motivation to use KUR to develop post-harvest programs. A higher level of knowledge of farmers is believed to be able to improve the skills and motivation of farmers in increasing national food productivity. One of the causes of the low motivation of farmers is the function of the PPL which only facilitates the socialization of KUR. There is no assistance related to KUR by PPL after the socialization process for business development. This can lead to confusion and ineffective use of KUR by smallholders. Meanwhile, PPL resources are not sufficient to provide assistance. Farmers do not even fully understand the information related to KUR payments. Even so, PPL has a desire to develop a post-harvest program despite the limited experience and lack of motivation from farmers.

"Even though there will be obstacles in the future if there are no collaterals, mentoring will be useful for farmers. Do not just give and then leave them on their own. Just because the credit is unsecured, it does not mean it can be misused." (Male beneficiary informant)

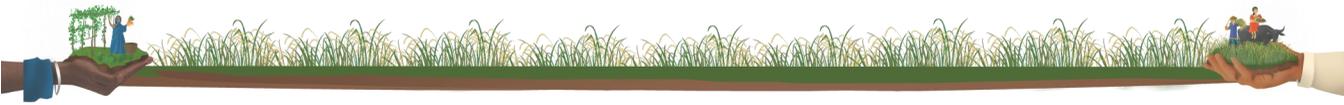
"No mentoring, but the loan must still be paid. The bank does not care. Installment must be paid every month. If they are late, then they will be fined." (Member of Gapoktan Ngudi Makmur)

Lack of coordination between stakeholders

The relationship between stakeholders is also still transactional. Between the central government and the regional government it is limited to administrative matters where the regions are instructed to conduct socialization related to KUR. However, the regions are not given authority in terms of budgets to carry out direct and comprehensive socialization to the target community.

Meanwhile, the relationship between the central government and lending banks is also limited to budget transfers that are carried out directly without intermediaries from the regional government. As a result, there is no strong and good communication and coordination between local governments and banks for the development of the KUR program. Therefore, local governments cannot monitor and evaluate banks because there is no cooperation that is specifically and periodically aimed at developing the KUR program.

Then, there is no room for dialogue that is built between stakeholders to determine policies together. This can be seen from the communication between banks and the central government that only goes one way (top-down). Banks have no room to compromise their needs with the central government. The central government determines the policy that KUR for farmers is less than IDR 25 million (approximately USD 1,760) free of collateral. However, banks as credit providers have not dared to implement this policy in practice. Bank regulations that continue to run without warning from the central government indicate that there is no monitoring or evaluation carried out by the central government for banks.



The coordination between banks and debtors is also limited to the need for a cycle of capital turnover. Banks provide credit without having a plan to provide assistance to credit recipients. This includes not conducting monitoring and evaluation so that in the field there are many debtors who use KUR that are not in accordance with their objectives. For banks, the most important thing is that the debtor can repay the loan within a predetermined time. Meanwhile, for debtors, KUR can be used to dig up debt holes.

General agricultural KUR designs misdirected

Since its inception, the KUR program was designed to provide access to capital for farmers to increase agricultural production. This is because the majority of farmers in Indonesia are small farmers and poor in rural areas. However, KUR requirements that are general in nature and do not specifically target related agricultural issues have caused the implementation of KUR to be neglected on strategic issues related to agriculture. The central government as a stakeholder with the highest authority as a policy maker, has not yet targeted a sustainable agricultural system to support the reduction of global warming as a form of commitment to global interests as stated in the SDGs objectives, for example, regulations governing credit granting for organic/natural farming businesses. Meanwhile, some farmers who are part of the agricultural credit stakeholders have implemented organic/natural agriculture as their production activities. Ideally, a policy can guarantee the sustainability of organic/natural agriculture in the credit program because the average farmer owns less than one hectare of land.

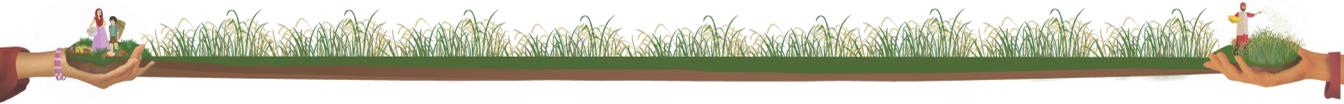
Women have not been the target of KUR

BPS data from the 2018 Inter-Census Agricultural Survey (SUTAS) state that eight million farmers in Indonesia are women. However, the ease of granting agricultural credit to women has not yet become the focus of policies related to lending. Although in the administration of KUR, married male farmers must obtain the approval of their wives, without specific targets for female farmers, it will not encourage the ability of female farmers to develop their agricultural businesses. One of the KWT members in Jatipuro said that her husband accessed KUR Agriculture and they used it for her agricultural business and her husband's non-agricultural business.

Analysis of the role of KUR for small farmers in Indonesia

Braverman and Guasch (1986) show that credit policies that are set uniformly for the same category of debtors but have different characters are quite risky. For example, the establishment of a credit scheme that was applied to African and Latin American farmers in the 1980s. The governments in the two countries use the point of view of "common interests" to prospective debtor farmers, not from an "equality" point of view by looking at the needs of farmers at each level.

As a result, landlords with large land assets can apply for larger loans than farmers with limited land. When the landlord uses loans to increase his production and



succeeds, he experiences an increase in income. Therefore, he can then repay the loan without any problems and can apply for another loan easily. This cycle ultimately causes the landlord's profits to multiply. Meanwhile, farmers who only have a small amount of land do not have the same opportunity to develop their agricultural businesses.

"Policies that allocate credit to farmers indiscriminately provide larger loans to larger landholders when all credit demands are fulfilled. This is because larger landholders require larger loans even if there are decreasing returns to credit per hectare and per farm size. This is also true if excess demand gives rise to rationing." (Braverman and Guasch, 1986)

This phenomenon indicates that accessibility to credit is determined by the ownership of resources that can be used as collateral.

The credit distribution system discovered by Braverman and Guasch (1986) also occurs in Indonesia. Stakeholders who act as credit providers and distributors have not yet taken the initiative to make policies to provide different treatment to farmers with varying needs. For example, there is no accommodation for farmers who want to develop agricultural production as well as marketing efforts. They cannot make loans on two types of KUR for two types of purposes.

Even so, there is satisfaction from farmers who access KUR because of the low interest rate system. Compared to other credit systems, KUR is a credit system with the lowest interest rate, at six percent. A smooth credit payment process also correlates well with the ease of service facilities they get. Farmers are satisfied when in the first stage of lending they are able to return the credit according to the maturity, they will get convenience in the next stage of the loan. Such a service delivery system becomes the added value of KUR that is considered by farmers to be maintained.

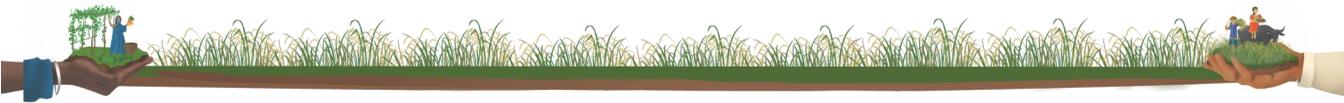
"...ease in the credit application process and low KUR interest..." (in-depth interview, woman, 34 years old)

"This KUR program is very helpful for farmers, especially in providing capital at the beginning of a farming business (the cost of land cultivation and planting)" (in-depth interview, man, 60 years old)

Special requirements of smallholders in COVID-19 pandemic

In 2020, when COVID-19 turned into a pandemic, Indonesia was quite affected economically. Therefore, as one of the KUR distributors, BRI made some adjustments by implementing three KUR schemes, namely KURI Mikro BRI, KUR Kecil BRI, and, KUR TKI BRI, with different types of credit.

KUR Mikro and KUR Kecil offer the same credit, which is working capital and/or investment, while KUR TKI offers working capital to support the departure of



prospective migrant workers. KUR TKI is not for farmers because its main requirement is that the applicant must be an individual who has applied as a migrant worker who will depart for their assigned country.

KUR Mikro and KUR Kecil have larger potential to be processed by BRI. The interest rate of both types of KUR is the same, which is six percent. For KUR Mikro, the maximum credit is IDR 50 million (approximately USD 3,500) with a maximum term of five years. For KUR Kecil, the maximum credit is around IDR 50 million to IDR 500 million (approximately USD 3,500 to USD 35,000) with a maximum term of five years.

There are four requirements for KUR Mikro. First, the applicant owns a productive business. Second, the business has been active for at least six months. Third, the applicant is allowed to receive credit or KUR from the same distributor, house credit, leasing, and credit card as long as their payment is smooth. Fourth, the applicant must submit documents, such as ID card, family card, and, business license.

KUR Kecil also has four requirements. First, the applicant owns a productive business. Second, the business has been active for at least six months. Third, the applicant is currently not receiving credit from another bank, except consumptive credit. Fourth, the applicant must have a business license.

Requirements regarding the policy on installment payment deadline that has been a problem since before the pandemic have burdened the farmers whose lives have been directly affected. For instance, a male beneficiary who built a chicken coop was not able to sell as many chickens as usual due to the pandemic. As a result, he faced difficulties in paying the installment.

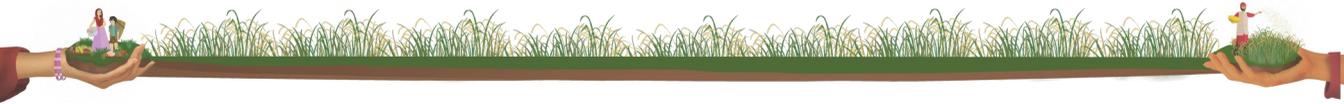
The informant said deferral of payment for a year could definitely help him alleviate his burden. Hopefully, the bank will conduct a survey first on debtors whose businesses went under due to the pandemic. For instance, the bank can build good communication by not demanding payment or giving payment deferral and not just outright blacklisting the debtors.

Information about payment deferral was also not disseminated evenly. Members of Gapoktan Ngudi Makmur did not receive the information. On the other hand, there were no policies from the bank for the debt reduction scheme for small farmers, who still need to pay the installment with the same amount every month.

"During the pandemic, there is no loan term and reduction in interest rate." (Member of Gapoktan Ngudi Makmur)

"During the pandemic, there was no debt reduction scheme. The same amount must be paid every month." (Member of Gapoktan Ngudi Makmur)

A female beneficiary informant made a similar statement. It was more difficult to pay the installment due to the pandemic. The informant felt relieved because of the payment deferral. She received the information from *mantri*. Hopefully, the interest



that must be paid can be reduced because the pandemic has affected all aspects of the informant's life.

Conclusion and recommendations

Conclusion

The relevance between the government's goal with the KUR for the agriculture sector is yet to be seen in the implementation at the regional level. Small farmers have not felt the benefits of the program holistically. As a government-appointed credit distributor, the bank has not been able to facilitate the funding for farmers' needs, which are the basis of loan requirements. The bank has merely acted as capital provider. As a result, many debtors have misused KUR funds; they used them for non-agricultural needs.

The granting of credit also does not imply support for sustainable development as the KUR system actually supports an agricultural system that is environmentally unfriendly. On the other hand, the bank's technology-based policy has not considered the farmers' access to technology at the regional level. Women have also not become a priority target for the credit program.

Recommendations

- Enact a law that specifically regulates the procedure to apply for agricultural KUR as well as the obligations that must be fulfilled by every stakeholder (regional governments, banks, and debtors).
- Synchronize the regulations issued by the central government, regional governments, and credit distributors related to collateral free policy of the agricultural KUR for small farmers.
- Involve farmers who are debtors in making decisions regarding the installment payment time as a solution for uncertain income from agricultural produce.
- Allocate funds for dissemination activities, mentoring, and monitoring and evaluation of agricultural KUR funds managed by regional governments.
- Grant regional governments the authority to conduct monitoring and evaluation on banks that distribute the credit regarding the absorption of KUR funds by farmers.
- Establish cooperation between regional governments and banks in conducting dissemination activities, mentoring, and monitoring and evaluation on the use of KUR funds.
- Accommodate the funds and the mentoring assistance in term of financial literacy, to expand and scale up the production towards post-harvest.
- Increase the engagement of women in formulating policies or provide special benefits for women who apply for KUR.
- Provide a bonus in the form of extended credit repayment time for debtors who practice natural/organic farming.
- Give deferral of installment payment through due repayment relaxation when disasters such as pandemics occur. ■

List of acronyms

AGRI	Agricultural Integrated Survey	KUR	Kredit Usaha Rakyat (People's Business Credit)
APBN	Anggaran Pendapatan dan Belanja Negara (State Budget)	KWT	Kelompok Wanita Tani (Women Farmer's Group)
BPBK	Buku Pemilik Kendaraan Bermotor (Book Vehicle Owners)	LKM-A	Lembaga Keuangan Mikro Agribisnis (Agribusiness Microfinance Institutions)
BPR	Bank Perkreditan Rakyat (People's Credit Bank)	MSME	Micro, Small, Medium Enterprise
BPS	Badan Pusat Statistik (Central Bureau of Statistics)	NPL	Non-Performing Loan
BRI	Bank Rakyat Indonesia (People's Bank of Indonesia)	NPT	Nilai Tukar Petani (Farmer Exchange Rates)
BULOG	Badan Urusan Logistik (National Logistics Agency)	NPWP	Nomor Pokok Wajib Pajak (Tax Identification Number)
DPMPSTP	Dinas Penanaman Modal dan Pelayanan Perizinan Terpadu (Department of Integrated Investment and Licensing Service)	OJK	Otoritas Jasa Keuangan (Financial Services Authority)
FAO	Food and Agriculture Organization of the United Nations	P2PL	Peer to Peer Lending
FGD	Focus Group Discussion	PEN	Pemulihan Ekonomi Nasional (National Economic Recovery)
FO	Farmer Organization	PERMENKO	Peraturan Kementerian Koordinator Perekonomian Bidang Perekonomian (Regulation of the Coordinating Minister for Economic Affairs)
GAPOKTAN	Gabungan Kelompok Tani (Farmer Group Association)	PERPADAI	Persatuan Pengusaha Penggilingan Padi dan Beras (Indonesian Rice Entrepreneurs)
GDP	Gross Domestic Product	PKUK-DAS	Watershed Small Business
IDR	Indonesian Rupiah	PPKM	Pemberlakuan Pembatasan Kegiatan Masyarakat (Public Activity Restriction)
KI	Kredit Investasi (Investment Credit)	PPL	Penyuluh Pertanian Lapangan (Agricultural Extension)
KK	Kartu Keluarga (Family Card)	RPJMN	Rencana Pembangunan Jangka Menengah Nasional (National Medium Term Development Plan)
KKOP	Credit for Cooperatives	SID	Sistem Informasi Debitur (Debtor Information System)
KBB	Kredit Kendaraan Bermotor (Motor Vehicle Credit)	SKU	Surat Keterangan Usaha (Business Certificate)
KKP	Food Security Credit	SOFI	State of Food Security and Nutrition in the World
KMK	Kredit Modal Kerja (Working Capital)		
Kop-UMKM	Koperasi dan Usaha Mikro, Kecil, Menengah (Department of Cooperatives and MSMEs)		
KPR	Kredit Pemilikan Rumah (Housing Credit)		
KSP	Komunitas Swabina Pedesaan (Self-reliant Rural Communities)		

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The relevance of the government's objectives to the existence of People's Business Credit or Kredit Usaha Rakyat (KUR) in the agriculture sector has not been seen in the implementation in the regions. Small farmers have not experienced the benefits of the program holistically. Improving the policy on KUR will help small farmers, especially women farmers, to access and use KUR for their agricultural needs, hence, this study.

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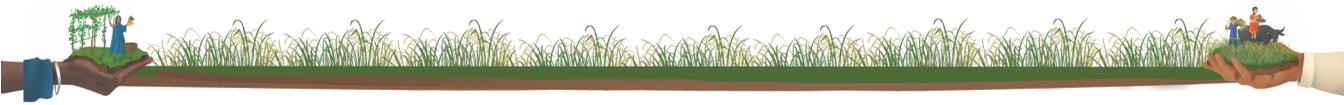
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Small Farmers, Big Credit Gaps:

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

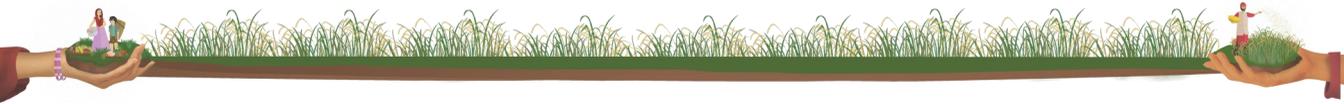
Currently, Nepal has adopted the federal government system and has three tiers of governments - local, provincial and federal. Agriculture is devolved with the institutional adoption of federalism. As such, all levels of government are equally responsible for agriculture development as agriculture sector 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.

Agriculture Development Strategy (ADS) 2014. The Agricultural Development Strategy (ADS) 2014, prepared by MoALD, includes the 10-year Action Plan and Roadmap and a rationale based on the assessment of the current and past performance of the agriculture sector. Its vision is: “A self-reliant, sustainable, competitive, and inclusive agricultural sector that drives economic growth and contributes to improved livelihoods and food and nutrition security” (Ministry of Agricultural Development, 2014).

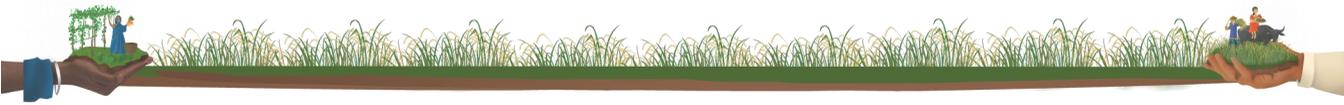
Nepal has yet to enact a National Agriculture Act. CSOs are frequently demanding for the formulation of an Integrated Agriculture Act for agriculture development, but the legislation of the Integrated Agriculture Act has not been finalized yet. MoALD said it was collecting recommendations from stakeholders 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.

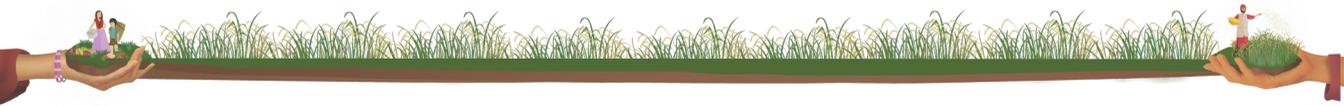
Climate change, tenure, and agriculture

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

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

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.

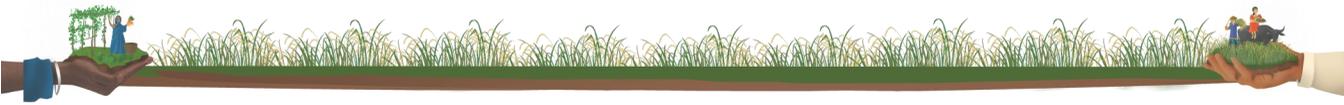
There are two cropping seasons in Nepal. During the summer cropping season (June to September), smallholder farmers plant rice, maize, and millet. In the winter cropping season (October to May), they plant wheat, barley, and potatoes. However, climate change has adversely affected the cropping seasons; 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:

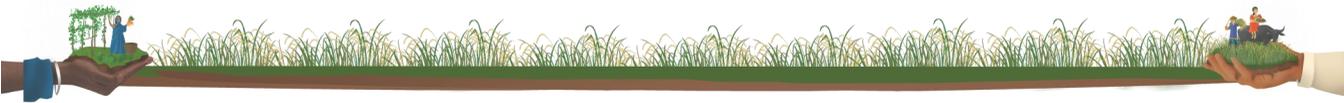
- **Relevance and Usefulness:** Analyze the contribution of the agri-credit scheme of ADBL and grant program of PMAMP taking into consideration the situation and needs of smallholder farmers, particularly those from the Gadhawa Rural Municipality;
- **Appropriateness and Accessibility:** Examine whether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

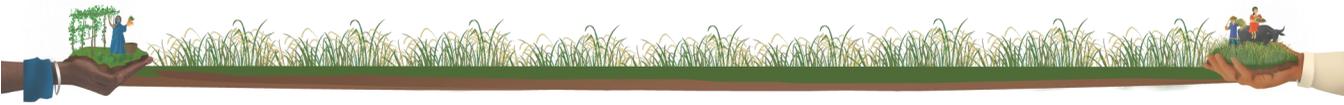
Generally, there are mainly two cropping seasons: summer cropping season (June to September) and another is winter cropping season (October to May) in Gadhawa. In the summer cropping season, farmers grow rice, maize, and millets, while their winter crops are wheat, barley, and potatoes. Summer crops 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 Gadhwara 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 Gadhwara claimed that the loans contributed to holistic development such as educational, economic, psychological, and social well-being of farmers.¹ 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.² 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.³

The Chairperson of Gadhwara 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.⁴ 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.

¹ Based on the KII with ADBL staff in Gadhwara branch office

² Based on the FGD with farmers in Katyangaun of Gadhwara Rural Municipality

³ Ibid

⁴ Based on the FGD with farmers in Gadhwara



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.

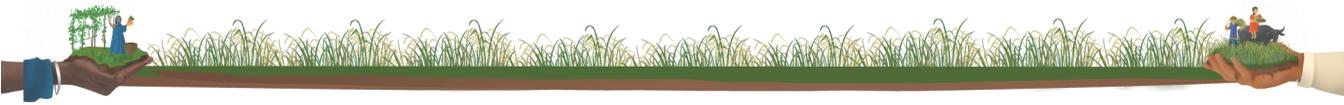
Policy environment on government agricultural production credit assistance

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).

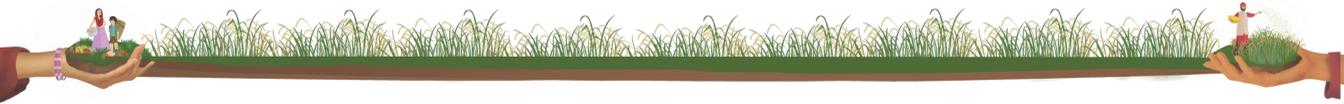
Agri-business Promotion Policy 2003 offers loan subsidies for the farmers through ADB or other commercial banks. Of the total 10 percent interest rate in agriculture credit, government subsidy will cover five percent while the farmer who registers for agri-business takes care of the other five percent. 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.

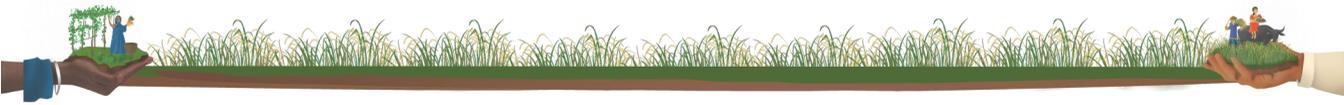
Government credit program for smallholder farmers selected for this study

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 superzone⁵ from PMAMP, but PMAMP has not done any study to examine the implication of the program.

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 portrays 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

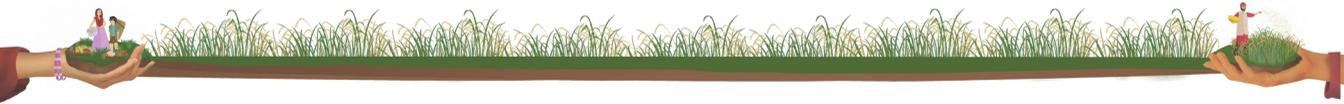
Agricultural credit in Gadhwara is rising these days. However, most of such credit has been disbursed in urban and semi-urban areas only. The landless and informal settlers who do not have formal land tenure security are deprived of taking credit from the government's program. Credit from banks and financial 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 Gadhwara 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 Gadhwara. 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 Gadhwara 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)

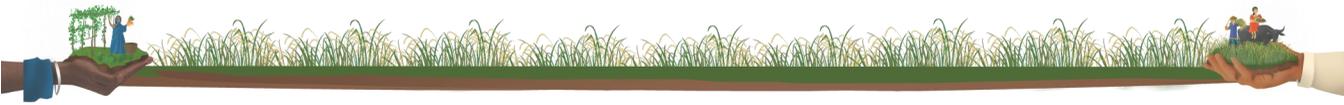
Under the PMAMP, four categories of agriculture production are being implemented: a) small commercial agriculture production center [pockets]; b) commercial and agriculture production centers [blocks]; c) commercial agriculture production and processing centers [zones]; and, d) extensive commercial agriculture 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 130,740,000,000.⁶ 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 Gadhwara 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 Gadhwara. However, a staff of ADBL in Gadhwara 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.

⁶ 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 Gadhwara 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.

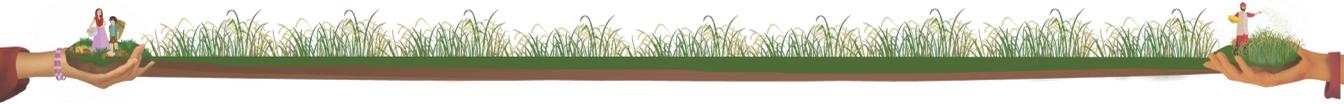
During FGD, the farmers said farm production sometimes is so low they struggle to repay loans on time. They are unhappy with the government's credit program including the loan facility of ADBL. A woman farmer said, *"We are not asking that our principal and interest be waived but the problem is the compound 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 Gadhwara 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 Gadhwara. A single loan section functions as a window for multiple loans – agriculture loan, livestock loan, education loan, and, other small loans.

A staff in Gadhwara branch said that there is high demand of agriculture loan in the Gadhwara 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

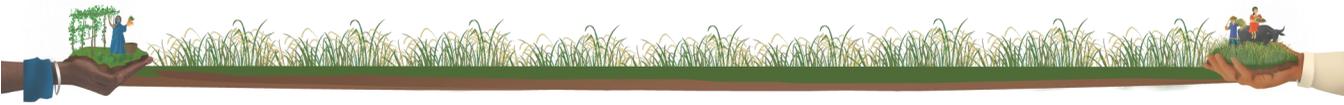
Based on the KII and FGD with stakeholders and farmers, the following strengths of the government credit program were identified:

- 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 Gadhwaha similarly need support on agricultural extension. Land productivity has decreased due to new types of insects and the excessive use of chemicals in Gadhwaha. 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.

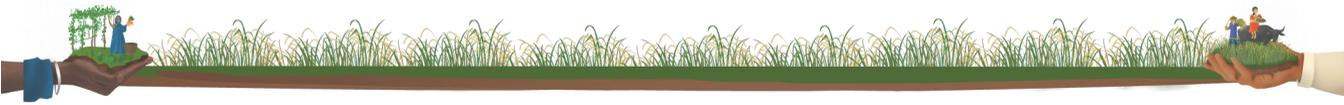
An old farmer in Gadhwaha said, *"We have informed policymakers and the project staff of PMAMP and ADBL about our problems, but they do not have adequate resources to address these. Now, we can't harvest produce because of the Fall Armyworm and other wild animals. Now everybody is asking to control these 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 Gadhwaha 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 Gadhwaha.

- **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. ■



List of acronyms

ADBL	Agriculture Development Bank, Limited
CBS	Central Bureau of Statistics
CSRC	Community Self-Reliance Centre
DLRF	District Land Rights Forum
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross Domestic Product
GoN	Government of Nepal
MoALD	Ministry of Agriculture and Livestock Development
MoF	Ministry of Finance
MoLMAC	Ministry of Land Management Agriculture and Cooperatives
NLRF	National Land Rights Forum
NRs	Nepalese Rupees
PMAMP	Prime Minister Agriculture Modernization Project

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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Disclaimer

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Citation

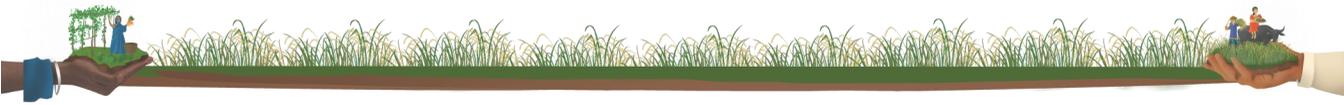
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Framing the ideal credit program:

Case study on Agrarian Production Credit Program for Small Rice Farmers in the Philippines

Overview of the study

Expanding the accessibility of agricultural credit has been widely used as a policy instrument to accelerate agricultural and rural development (ADB, 1998; Binswanger, et al., 2000). While it is vital to solve rural poverty (Llanto, et al., 2000), access to credit is limited in the rural areas (Sahu et al., 2004).

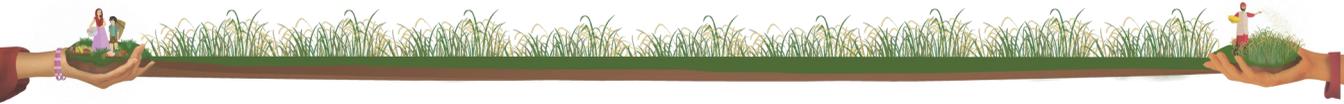
Credit can facilitate the purchase of costly inputs and the adoption of alternative crops (Zeller, et. al., 1998) as well as encourage farmers to use modern technologies to achieve higher productivity (Llanto, 1987; Atieno, 1997; Duong & Izumida, 2002; Meyer and Nagarajan, 2000). Policymakers believe many smallholders, especially rice farmers, experience difficulty in accessing credit from formal financial institutions. This is one reason Filipino farmers lag behind Asian neighbors and make minimal contributions to the national economy (Habito, 2021).

On 20 January 2021, policymakers signed the amended Implementing Rules and Regulations (IRR) of the Agri-Agra Reform Credit Act of 2009 that requires private banks to set aside at least 15 percent of their loan portfolio for agri-fishery and another ten percent to support agrarian reform beneficiaries (ARBs). Loan utilization has been low. Some banks opt to pay penalties instead of providing credit to farmers. The new IRR aims to facilitate larger bank investments in the sector to ensure food security while contributing to national economic recovery amid the pandemic (Simeone, 2021).

While various credit programs have been implemented to improve rural credit delivery, many small farmers are discouraged from borrowing from formal financial institutions because of restrictions on collateral, complicated and lengthy procedures, commodity specific credit programs, limited coverage in rural areas, and, lack of participation in planning agricultural credit programs. Many rely on informal lenders despite higher interest rates because of simpler loan transactions and the timely release of funds (Poliquit, 2006).

The Land Bank of the Philippines (LBP) has been the major financial institution supporting the agricultural efforts of smallholders given the following limitations of the informal credit lenders:

- a. they are ill-equipped to meet the requirements of modernizing agriculture;
- b. high interest rates limit smallholders' adoption of socially profitable technical innovations;
- c. they rarely give supervision, capacity building, technical assistance, or savings deposit services; and,



- d. the volume and term structure of informal lending operations are confined to small, short-term loans that do not fully support the adoption of modern farm technologies.

This study is part of a regional initiative of the Asian NGO Coalition for Agrarian Reform and Rural Development (ANGOC) on smallholder agriculture towards sustainable food systems and livelihoods. Its focus is the Agrarian Production Credit Program (APCP) that is implemented by the Department of Agriculture (DA), Department of Agrarian Reform (DAR), and LBP with support from the Department of Environment and Natural Resources (DENR) and the Philippine Crop Insurance Corporation, Inc. (PCIC). Launched in October 2012 as a five-year program, APCP has been extended for another five years to 24 October 2022 in order to provide continuing credit assistance to agrarian reform beneficiaries (ARBs), especially those belonging to new associations that do not yet qualify for the regular lending programs of LBP.

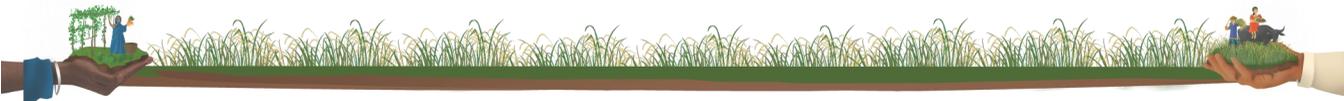
The APCP is demand-driven, covering a whole gamut of income-generating projects that farm households may undertake. It is a two-step loan program with government financial institutions (GFIs) as wholesalers and qualified private banks, microfinancing institutions, and farmers' organizations or cooperatives as retailers. It adopts market rates (Geron, et al., 2016).

It caters to the credit needs of smallholders who are direct beneficiaries of past agrarian reform programs under PD 27 and the Comprehensive Agrarian Reform Program (CARP). According to DAR, there are around 2.4 million rice farmers who cultivate and own agricultural lands of not more than five hectares in the country.

The APCP has three lending windows that support crop production and diversification, agribusiness, and livelihood projects aimed towards higher productivity, income, and savings. It provides capacity building and support services through local government units, including the Municipal Agriculture Office (MAO), Municipal Agrarian Reform Office (MARO), and, Municipal Environment and Natural Resources Office (MENRO).

Statement of research objectives

- To analyze the appropriateness, accessibility, and usefulness of the APCP to smallholder rice farmers in the Philippines;
- To understand the challenges in APCP implementation and the subsequent adjustments made by the government;
- To determine the credit needs and preferences of small rice farmers that should be considered in designing an appropriate and accessible credit program in the Philippines; and,
- To propose recommendations to government lending institutions on how to improve smallholders' access to and utilization of credit programs.



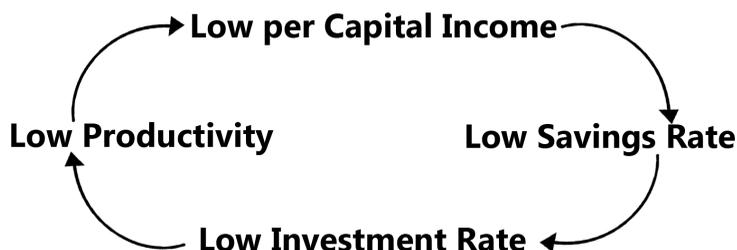
Framework of analysis

Credit pertains to a financial transaction where money will be repaid by smallholders with interest to LBP. The amount is meant as capital for crop production, agribusiness, and livelihood to achieve higher productivity, income, and savings. *Family farming* pertains to agricultural activities and practices which are owned, managed, and operated by small farmers that rely on family labor. Family and farm are linked, co-evolve, and combine economic, environmental, social, and cultural functions (FAO, 2017).

Figure 1 shows the vicious cycle of low capital formation that is true in the Philippines where the prevalence of poverty and underdevelopment of agriculture is due to the lack of public investment and capital formation in rural areas, which has resulted in limited savings and investment, hence, low productivity for small farmers. Heidhues and Schrieder (1999) espouse that credit breaks the vicious cycle of low capital formation to increase per capita income, savings, investment, and productivity.



Figure 1. The Vicious Cycle of Low Capital Formation

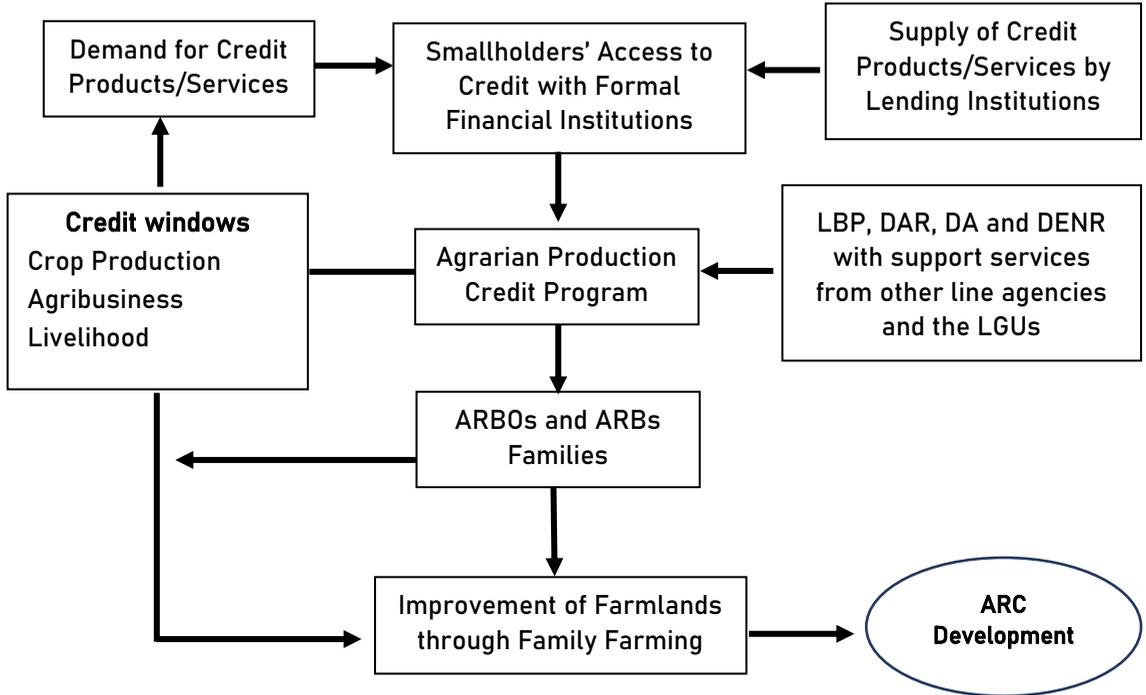


Expanding credit programs leads to higher productivity and incomes (Llanto, 1987; Atieno, 1997; Meyer and Nagarajan, 2000). It is hoped that the continuing credit and other program interventions by the government, together with other stakeholders, will improve rice farmers' farmlands. Over time, the improvement should lead to the development of agrarian reform communities (ARCs) that are envisaged under the Comprehensive Agrarian Reform Program/Extension with Reforms (CARP/ER) as the economic hub in the delivery of support services in rural areas.

Figure 2 shows smallholders are organized into ARBs registered as farmer's associations or cooperatives that can be developed into lending conduits to reach more farmers in remote areas.



Figure 2. Financial Inclusion and Family Farming as Framework of Analysis



Research methodology

This study relied on reports of government agencies and national assessment studies on agricultural credit focused on rice farmers conducted by the Philippine Institute for Development Studies (PIDS) and the Multi-Sectoral Management Development Corporation (MMDC). Primary sources included focus group discussions (FGDs) with rice farmers and civil society organizations as well as program implementers from government to validate the challenges faced by small farmers.

On 14 May 2021, ANGOC held an FGD with APCP implementers that was attended by 11 participants from the ACPC Secretariat, DAR, DA, and DENR. The discussion focused on the salient features of the APCP, accomplishments, and, challenges encountered in the field.

This study preselected farmer participants based on their knowledge and experience on credit as this relates to rice production, organizational development, and marketing. The original design involved 15 rice farmers from Luzon (5), Visayas (5), and, Mindanao (5). During the FGDs, Luzon and Mindanao participants were unable to attend because of time constraints and mobility restrictions due to the Covid-19 pandemic. Hence, the study focused on the Visayas region, involving APCP and non-APCP beneficiaries. The FGDs held on 19 May and 8 June 2021 had eight rice farmers from Negros, Iloilo, and Leyte (Table 1).



Table 1. Sample Size of Respondents

Provinces	APCP		Non- APCP		Total
	Male	Female	Male	Female	
Iloilo	2	0	0	2	4
Negros	1	0	0	0	1
Leyte	1	0	2	0	3
Total	4	0	2	2	8

The e-survey generated information on the socio-demographic profile, knowledge, and experience with credit programs of APCP and non-APCP respondents from four farmers' organizations and one NGO.

Table 2. Names of Participating Organizations

Name of Organization	Province	APCP Members	Non-APCP
Katilingban sang Agraryo Padulong sa Pag-uswag sang Iloilo Agrarian Reform Cooperative (KASAPPI)	Iloilo	2	2
Guim-o Layan Agrarian Reform Cooperative	Negros	1	-
Kaisahan tungo Sa Kaunlaran Ng Kanayunan at Repormang Pansakahan, Inc. (KAISAHAN)	Leyte	1	-
Salvacion United Leyte Farmers Association (SUFA)	Leyte	-	1
Ormoc Kananga Leyte Farmers Federation (ORKALEFF)	Leyte	-	1

Table 3 shows the characteristics and socio-economic profile of the respondents based on the e-survey.

Table 3. Socio-economic profile of the Respondents

Demographic Profile	APCP	Non-APCP	Remarks
Ave. age of respondents	57	48	Age range is between 48 and 57 years old.
Ave. number of children	5	4	The average size is 4 to 5 children.
Ave. size of landholdings	1.22	1.08	The average landholding is at 1 hectare.
Land Tenure Status			
<ul style="list-style-type: none"> • With CLOA • Without CLOA 	3 (75%) 1 (25%)	3 (75%) 1 (25%)	Majority of respondents are small owner cultivators as ARBs.
Crops Planted			
<ul style="list-style-type: none"> • Primary • Secondary Crops 	Rice Corn, Sweet Potato, Sugarcane	Rice Corn, Vegetables	All respondents plant rice with secondary crops with some of them practicing crop rotation to prevent soil acidity that would allegedly require additional fertilizers.
Methods of Farming			
<ul style="list-style-type: none"> • Conventional • Mixed/LEISA • Organic Farming 	2 (50%) 1 (25%) 1 (25%)	0 4 (100%) 0	It appears that the APCP is promoting modern farming technology as most respondent-farmers have adopted either conventional farming and/or combined conventional and organic farming technology with integrated pest management. Only one farmer beneficiary has adopted organic farming.

Credit Sources <ul style="list-style-type: none"> • Self -financing • Friends/Relatives • Coops/MFI • LBP thru APCP 	4 (100%) @ 8% p.a.	2 (50%) 1 (25%) @ 8% p.a. 1 (25%) @ 26% p.a. CARD	All APCP respondents sourced their credit from the LBP. Non-APCP respondents relied on their own capital, friends/relatives, cooperatives, and microfinance institutions. No respondent availed of credit from private lenders like rice traders, millers, etc.
Knowledge about APCP	All	All	All respondents are aware of the APCP.
Sources of credit information <ul style="list-style-type: none"> • Government • Cooperative 	2 (50%) 2 (50%)	3 (75%) 1 (25%)	Information about credit came from two sources, government/LGUs and their cooperatives.
Credit history on crop production	All availed credit	All availed credit	All respondents have received crop production loans from either public and/or private financing institutions.
Challenges in Availing Credit <ul style="list-style-type: none"> • Slow process of loan takeout • Difficult to comply with documentary requirements • Afraid to borrow due to high interest rate 	4 (100%) 4 (100%)	3 (75%) 1 (25%)	Both APCP and Non-APCP farmers experienced difficulty in availing of credit due to strict documentary and collateral requirements. One respondent expressed hesitation to avail of credit due to high interest rate.

Scope and limitations of the study

Due to COVID-19 health protocols, the study relied on online discussions and was limited to the experiences of eight farmers in Iloilo, Negros, and Leyte provinces. It may not represent national perspectives and preferences of small rice farmers. It did not undertake a thorough analysis of the rice industry, nor of the impact of various policies such as the Rice Tariffication Law.

The agriculture sector in the Philippines

Overview of Philippine agriculture

Situated in Southeast Asia, the Philippines is an archipelago of more than 7,100 islands. It consists of 298,170 square kilometers of land and 1,830 square kilometers of water (*see Figure 3*). The three largest groups of islands – Luzon, Visayas and Mindanao – are subdivided into 16 regions, 81 provinces, 144 cities, 1,496 municipalities and 42,028 *barangays*. The islands are mostly mountainous and covered by tropical rainforests with high levels of biodiversity.

The country has two seasons: wet season is from June to November and dry season from December to May.

Figure 3. Map of the Philippines



Photo source: <http://www.destination360.com/maps/philippines-map.gif>

The Philippines has a current population of 109 million, composed of 53.8 million men and 54.9 million women¹ (PSA, 2020; PSA 2021a), with a median age of 25. Forty percent are below 20 years old (NEDA, as of 28 January 2020). About 60 percent are rural dwellers, and two-thirds of these depend on farming for their livelihood (Balisacan, 2001; Venkataramani, 2005).

Since the majority of the poor depend on the four agricultural sub-sectors – farming, fisheries, livestock and forestry – the growth of Philippine agriculture is crucial to poverty alleviation and food security. But it has been growing erratically since the early 1980s and its growth is well below potential (Balisacan, 2001).

Despite the poor economic performance of agriculture, its share of employment is at almost 30 percent of the national total although jobs are seasonal and low paying. Underemployment in the sector is high at 25 percent, compared to 20 percent in the industrial sector and almost 15 percent in services (NEDA, 2017). Women comprise 27.3 percent of the 10.4 million workers employed in the agricultural sector, hunting, and forestry (NSO, 2004 in FAO, n.d.).

The underdevelopment of agriculture is due to the confluence of the following interrelated factors:

- a. *Low public investment in agricultural development programs and infrastructure projects*, i.e., inadequate irrigation systems and postharvest facilities, farm to market roads, etc.;
- b. *Decrease in productivity and income* due to high production costs, lack of credit and technical support, and low market prices of agricultural products;
- c. *Land conversions that have reduced the areas devoted to agriculture* due to the lack of a comprehensive national land use law;
- d. *The unfinished business of agrarian reform* with 92.8 percent (561,131 hectares of private lands) yet to be awarded. Landlord resistance has been growing, as indicated by the increasing number of agrarian disputes/cases (Quizon, et al., 2018);
- e. *Aging farmers and fewer young people engaged in agriculture* (IFAD, Elauria, 2015). Palis said most farmers think their children would not have a good future as rice farmers (73 percent). Farmers want a college education for their children so that they would have a stable job and income (32 percent). Others said their children were not interested in rice farming (21 percent);

¹from 2020 population projections



- f. *Dismal failure of farmers' cooperatives* due to mismanagement, insufficient working capital, and high indebtedness;
- g. *Unequal gender relations between men and women in agriculture despite the Magna Carta of Women and special provisions of CARPER*, resulting in the prevalence of gender stereotyped roles and limited participation of women in agriculture;
- h. *Limited capabilities of national and local governments units* in manpower, expertise, and resources and the seeming lack of coordination among line agencies and key stakeholders;
- i. *Increased frequency of natural disasters* due to the adverse effects of climate change; and,
- j. *The COVID-19 pandemic* that has exacerbated poverty, unemployment and hunger.

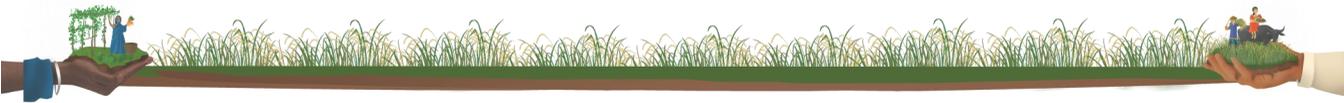
The pandemic plunged the economy to its worst performance in decades. Gross domestic product fell eight percent in the fourth quarter of 2020, resulting in a -9.5 percent regression for the year. Agriculture contributed -2.5 percent, followed by services (-8.4 percent) and industry (-9.9 percent) (PSA, 2021b). Closing down the economy in 2020 led to the complicated issue of supporting millions of Filipinos who were unable to earn a living. Access to food was extremely compromised. The three-month community quarantine led to the lack of public transportation that made food inaccessible to urban areas even as limited LGU relief packs lasted only a few days. At the same time, rural food producers experienced difficulty in transporting their products to urban centers due to strict travel restrictions.

Agricultural policy in the Philippines

Agricultural credit programs have evolved from subsidized interventions to a more market-based approach (Galang, 2020). In the 1970s, the government provided targeted and subsidized credit programs to support farmers at reasonable interest rates through the adoption of Green Revolution technologies – a package of incentives that include fertilizer subsidy, price support, technical assistance, and other support services. These proved costly and unsustainable over the long term. Many failed to pay their debts with LBP. Many rural banks closed due to high levels of loan defaults by farmers' cooperatives and associations (Esguerra 1981; Meyer and Nagarajan, 2000).

In 1997, Republic Act 8435, or the Agriculture and Fisheries Modernization Act (AFMA), which promotes market-based principles and greater private financial sector participation in agricultural development and phased out subsidies, was passed. Non-financial State agencies were disallowed from implementing direct agricultural credit programs (Galang, 2020).

As the policy framework for agricultural development, AFMA aligns with the Philippine Development Plan for 2017 to 2022 that seeks to promote inclusive and sustained economic growth aimed at raising productivity; strengthen forward linkages with the industry and service sectors; and boost resilience to risks in light of climate change (NEDA, 2014 in OECD, 2017). It is funded through the General Appropriations Act.



These goals are supported by rural development programs that aim to accelerate the implementation of CARPER to provide security of tenure and improve access to credit of ARBs; strengthen farmers' groups and cooperatives via capacity building, agribusiness development, and value chain management; encourage public-private partnerships to finance agricultural extension services, infrastructure, and postharvest facilities; encourage greater investment in research and development; encourage diversity of production and livelihood sources while strengthening the crop insurance system; and, adopt community-based employment programs to function as a social protection mechanism (NEDA, 2014 in OECD, 2017).

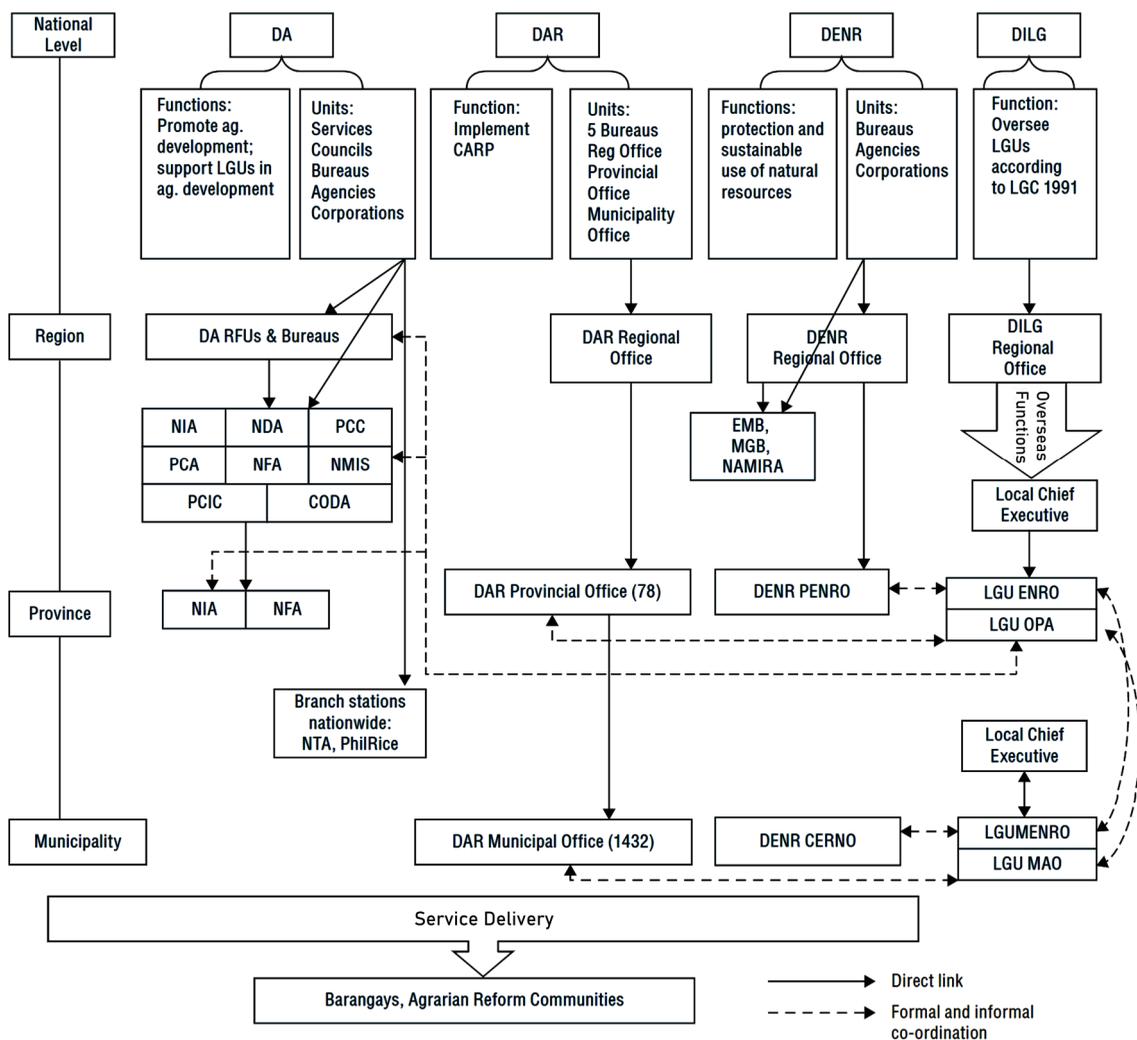
The ACPC is the main implementing mechanism to synchronize all government agricultural credit policies and financing programs; formulate credit policies and programs; and, oversee the implementation of the Agricultural Modernization Credit and Financing Program (AMCFP). It also provides certification of eligibility of bonds and other debt securities and accreditation of non-bank rural financial institutions.

All government credit programs were consolidated and transferred to the AMCFP, the umbrella credit program of DA and DAR for APCP implementation. AMCFP funds are channeled to GFIs and rural banks, microfinance institutions, and cooperative banks to serve small farmers and fisherfolk.

The government provides an enabling environment for agriculture. Aside from the Social Reform Agenda and Poverty Alleviation Act, these recognize land rights and advance the asset reform agenda of basic sectors: the Comprehensive Agrarian Reform Program (CARP/CARPER); Philippine Fisheries Code; Indigenous Peoples' Rights Act (IPRA); Urban Development and Housing Act; and, Community-Based Forest Management (CBFM). Laws have also been passed to enhance the sector's resilience against climate change, deforestation, and natural disasters, namely: Climate Change Act; Ecological Solid Waste Management Act; Strategic Agricultural and Fisheries Development Zones; and, Organic Agriculture Act (RA 10068). RA 10068 requires the DA to direct two percent of its yearly expense towards promoting organic agriculture for sustainable food production and expand the availability of safer, more nutritious foods. The National Organic Agriculture Program of 2012 to 2016 of DA's Bureau of Soils and Water Management (BSWM) envisioned that at least five percent of agricultural farms would practice organic farming by 2016.

The Philippine agricultural sector is governed by four key departments responsible for rural development, namely: DA, DAR, DENR, and DILG (Department of Interior and Local Government). The government has adopted a whole-of-government approach that requires greater coordination and collaboration among different agencies to ensure the nation's food security and for agricultural development. DA is the lead agency for the realization of the Philippine Rice Master Plan 2017 to 2022 that seeks to enhance provincial rice self-sufficiency in the country (OECD, 2017).

Figure 4. Organizational framework for agricultural policy implementation of the Philippines



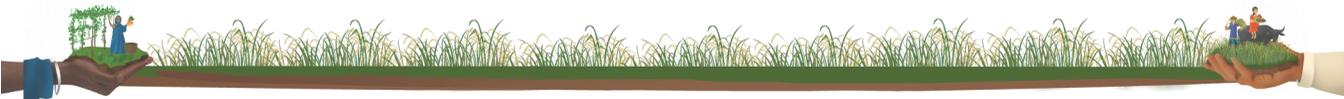
CODA Cotton Development Administration
 DILG Department of Interior and Local Government
 EMB Environmental Management Bureau
 MAO Municipal Agriculture Officer
 MGB Mines and Geosciences Bureau
 NAMRIA National Mapping and Resource Information Agency
 NDA National Dairy Authority
 NFA National Food Authority
 NIA National Irrigation Administration

NMIS National Meat Inspection Service
 OPA Office of Provincial Agriculturist
 PCA Philippine Coconut Authority
 PCC Philippine Carabao Center
 PCIC Philippine Crop Insurance Corporation
 PhilRice Philippine Rice Research Institute
 P/CERNO Provincial/Community Environment and National Resources Offices
 RFU Regional Field Unit

Source: OECD (2017) citing Lange (2009)

Rice industry in the Philippines

Rice is the staple food for most Filipinos. Well-milled rice retailed at an average of PhP 43/kg (approximately USD 0.86/kg) from January to June 2017. Rice consumption was estimated at 13.91 million metric tons (MMT) in 2019, 14.45 MMT in 2022, and 15.18 MMT in 2026. It is projected to reach 15.88 MMT by 2030 due to population growth and a possible rise in per capita consumption. According to the DA, a changing demand pattern from quantity to quality is expected to affect the rice supply in the country.



Rice accounts for 35 percent of the average calorie intake of the population and 60 to 65 percent for households in the lowest income quartile. It is cultivated on 4.06 million hectares, or 13.62 percent of the country's total land area. The rice industry employs 2.5 million households: 2.1 million farmers, 110,000 workers for post-farm activities and 320,000 for ancillary activities (Global Cost and Price Competitiveness of Philippine Rice, in Gonzales, 2013).

The Philippines is the eighth largest rice producer in the world. Its arable land for rice has expanded from almost 3.8 million hectares in 1995 to about 4.4 million hectares in 2010. Seventy-one percent of rice production comes from irrigated areas. Although yield has improved from 2.8 t/ha in 1995 to 3.6 t/ha in 2010, this is still way below the yield potential of modern varieties (Ricepedia, n.d.).

In 2017, the DA Rice Master Plan reported that the country produced 19.3 MMT of paddy, equivalent to 12.53 MMT of rice. The average yield of paddy is four MT/ha. As shown in Table 4, a total of 29 provinces have average yields of more than four MT/ha with production costs pegged at a low of PhP 12/kg (approximately USD 0.24/kg). Thirty-nine (39) provinces have average yields at three to four MT/ha; and, 14 provinces at medium cost at PhP 17/kg (approximately USD 0.34/kg).

Table 4. Priority Provinces for Enhancing Yield and Reducing Cost

	High Yield (> 4 tons/hectare)	Medium Yield (3 to 4 tons/hectare)
Low Cost (P12/kg)	Nueva Ecija, Isabela, Bukidnon, Zamboanga del Sur, Pampanga, Misamis Occidental, Lanao del Norte, Biliran, Aurora, Kalinga	Camarines Sur, South Cotabato, Leyte, Negros Occidental, Iloilo, Capiz, Albay, Maguindanao, Agusan del Norte, Antique, Sorsogon, Masbate, Palawan, Cavite, Lanao del Sur, Western Samar, Surigao del Sur, Aklan
Medium Cost (P12 to 17/kg)	North Cotabato, Tarlac, Cagayan, Pangasinan, Bulacan, Nueva Vizcaya, Ilocos Norte, Davao Oriental, Davao del Sur, Davao del Norte, Southern Leyte, Laguna, Zambales, Quirino, Misamis Oriental, Zamboanga Sibugay, La Union, Ilocos Sur	Compostella Valley, Negros Oriental, Bohol, Occidental Mindoro, Quezon, Ifugao

Source: DA, 2018

The Philippines imports about 10 percent of its annual rice requirements. The National Food Authority (NFA) is responsible for the import control of rice, from procurement to distribution with accredited retailers and wholesalers at a predetermined price.



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At a 35 percent tariff, the landed cost of imported rice amounts to PhP 35.31/kg (approximately USD 0.71/kg). On this basis, the farm gate price of paddy should be at least PhP 17/kg (approximately USD 0.34/kg) to maintain a minimal PhP 5/kilo (approximately USD 0.1/kg) profit margin for the farmer (Table 5).

Table 5. Effect of Rice Tariffication Law

Item	Value (PhP/kg)
Import Parity Price/Price at the Wholesale Market	35.31
- Total Marketing Cost	5.25
- Traders Income	4.00
= Cost of Milled Rice	26.07
X Milling Ratio	0.65
= Price of Palay	16.94
- Farmer's profit of PhP 5/kg	5.00
= Production Cost	11.94

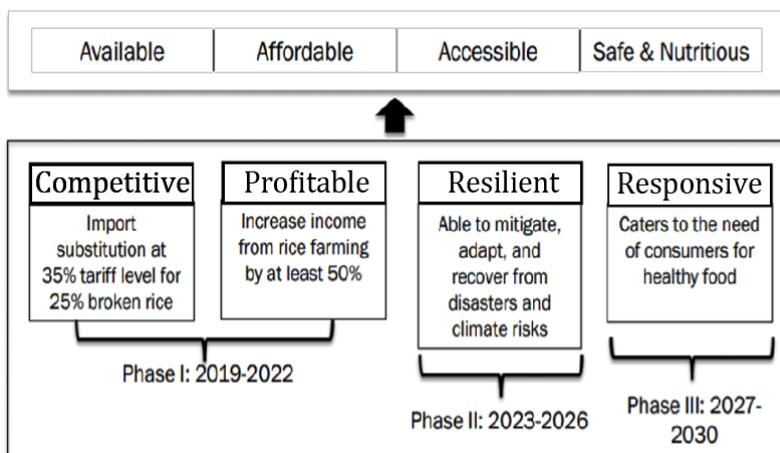
Source: DA, 2018

The Philippine rice industry provides staple food and income to more than three million farmers and their families, thousands of traders, millers, retailers, and individuals employed in the production, processing, and marketing of its related products (Intal and Garcia, 2005).

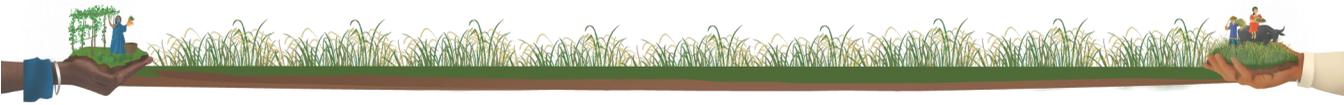
In its various forms – rough, brown, milled, broken, flour, and starch – rice is a processed material with added value (Juliano and Hicks, 1996). By-products – straw, hull, and bran – are becoming important sources of raw material for industry use, creating new income opportunities. There are also non-edible products from rice and rice by-products, e.g., cosmetics, pharmaceuticals, and rice bran oil. Processing rice bran oil and other non-edible food for commercialization is not yet well-advanced in the country, partly due to the cost of raw materials (Mataia, et al., 2020).

Considering its contributions to the national economy, rice is a highly political commodity. This is why the rice sector has always been the center of the government's food security goals with policies and programs that emphasize improvement of the competitiveness and income of farmers, ensuring rice self-sufficiency, and making rice prices affordable, safe, and nutritious to Filipinos (Figure 5).

Figure 5. Rice Secure Philippines



Source: DA, 2018



The country's Rice Master Plan for 2017 to 2022, which envisions a rice-secure Philippines, pursues location-specific interventions to help farmers get higher yields. By 2022, the targets are to: raise productivity from an average yield of four MT/ha to six MT/ha in high-yield provinces and five MT/ha in medium-yield provinces; reduce average farm production cost to PhP 8/kg (approximately USD 0.16/kg) in low-cost provinces and PhP 10/kg (approximately USD 0.2/kg) in medium-cost provinces; reduce average postharvest losses to 12 percent of harvest in provinces with drying capacity deficiencies; reduce average marketing cost by PhP 1/kg (approximately USD 0.02/kg); and, help rice farmers and farm workers transition in low priority areas.

The government's strategic interventions require a multi-pronged approach that includes land tenure improvement; program beneficiaries' development; coordinated support services delivery that incorporates effective and efficient irrigation systems; credit provision for farm inputs, such as high-quality hybrid and inbred seeds; adoption of integrated and sustainable crop management technologies; and, the delivery of extension support services. The government also supports farm mechanization through the Rice Mechanization Program. It aims to procure and distribute postharvest units (i.e., drying and milling machines) and on-farm machinery through a financing scheme where it shoulders a chunk of the cost. The plan does not reflect how the DA and its attached agencies will promote the adoption of organic farming technology.

DA and its attached agencies advocate the passage of the Philippine Rice Industry Reform (PRIR) Act to ensure its funding by 2030. It also plans to review the Seed Industry Development Act; support the passage of the Comprehensive Land Use Plan; harmonize the Philippine Grain Standardization Program; institutionalize a rice buffer stock mechanism; and, converge government agency initiatives on the management of water resources (DA, n.d.).

Overview of the situation of rice farmer smallholders

Smallholders are family units that exist in a family-labor intensive system with low capital input. They have limited opportunities for livelihood improvement because of small farm size, poor knowledge in accessing finance/credit, and production and marketing difficulties (Geron, et al., 2016). Below are the characteristics of smallholders in this study.

- ***Smallholders own and cultivate less than five hectares of land with low productivity.*** Based on Census of Agriculture data (2012), out of 9.6 million hectares, the total land area cultivated by 4,419,326 small farmers is estimated at 5,607,022 hectares (Table 6).

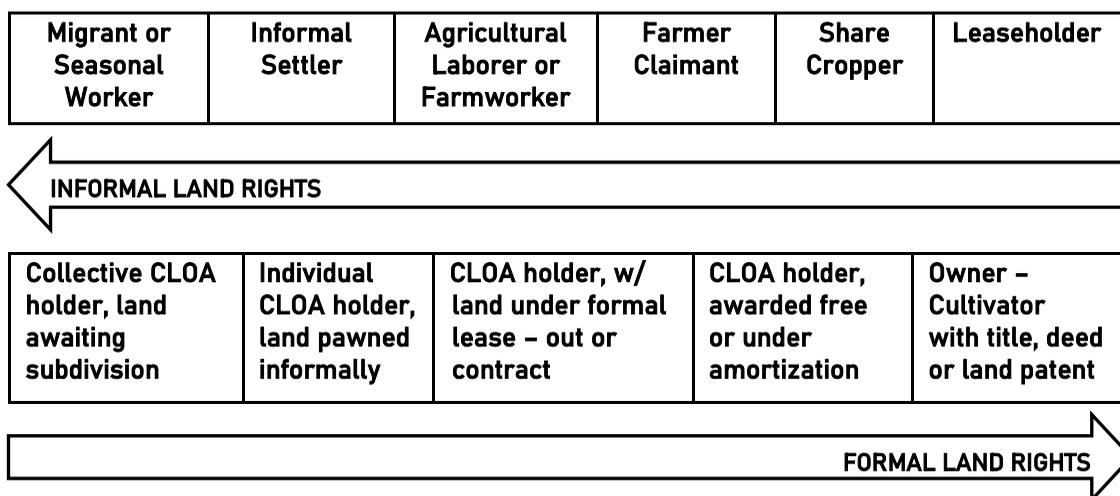
Table 6. No. of Farm Holdings, By Size of Area (As of 31 December 2012)

Farm Size	No. of Holders	Total Area (hectares)
Under 0.5 hectare	973,601	232,731
0.5 and under 1 hectare	962,273	594,300
1 and under 2 hectares	1,349,903	1,635,995
2 and under 3 hectare	624,669	1,365,613
3 and under 5 hectares	508,880	1,778,383
5 and under 7 hectares	221,198	1,248,615
7 and under 10 hectares	81,941	665,781
10 and under 25 hectares	88, 658	1,192,188
Total	4,822,739	9,670,793

Source: PSA, 2012

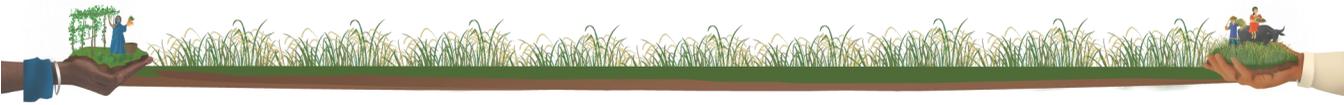
- **Smallholder farmers can be grouped according to land tenure status.** The 2017 ANGOC study in the Visayas revealed 11 types of land tenure status of farmers and farmworkers in alienable and disposable lands. **Figure 6** shows the land rights continuum from informal to formal rights according to the farmers' physical access and actual use of the land and their tenure instrument and legal recognition of rights over the land provided under CARP/ER.

Figure 6. Land Rights Continuum



Source: ANGOC, 2017

Family farming is the main source of food regardless of tenurial status. Rice cultivation is primarily for household consumption, augmented by backyard gardens and raising farm animals. Food security is linked to tenurial status. Those with secure land ownership have sufficient and diverse food supply. Security of tenure provides the incentive for more intensive cultivation and higher investments by small cultivators in developing their farmlands. For landless agricultural workers, the wages from both farm and non-farm labor are their main source of food for the whole year.



- **Smallholders are organized into farmer's associations and cooperatives.** Farmers' organizations have two important roles: *people's empowerment* as an alternative locus of power so that the voices of the poor are heard by authorities (Ford, 1987); and an *economic viability* role that allows individual farmers to boost their quality of life and organizations via better use of resources, overcoming production and marketing risks, better market positioning, better supply of inputs, and, better knowledge transfer (Verhagen, K., 1986; Göler von Ravensburg, in Münker, 2012).

Based on the Registry System of Basic Sectors of Agriculture (RSBSA), 4.5 million of 6.6 million farmers cultivate less than five hectares of land. DAR reported 2.7 million ARBs, of whom 41 percent are RSBSA registered. NIA reported 5,320 irrigator's associations, while the CDA reported 28,784 registered cooperatives in 2018 (Arnaoudov, Sibayan, and Caguioa, 2015). Quizon et al. (2018) say farmers' organizations enable them to pursue land rights claims and get support services. A fraction of ARBs is organized as ARBOs/cooperatives. Non-ARBs include leaseholders, farmer claimants, sharecroppers, farmworkers, informal settlers and migrant or seasonal workers.

- ***Some smallholder farmers have multiple sources of income.*** Family farming is the main source of income for small farmers but there are others. Some get remittances from family members who are abroad. According to IFAD (2011), 30 to 60 percent of rural households earn around 75 percent of their total income from more than two sources. Multiple income sources enable smallholders to manage risks. Income from one economic activity offsets the decline in another.
- ***Smallholder farmers are considered high risk by lending institutions.*** Smallholders' economic opportunities are constrained by the lack of transportation and communication infrastructure. They have variable incomes and are vulnerable to exogenous economic shocks. The seasonality of crops and production schedules leads to spikes in loan demand and shortage in funding and labor. The concentration on agriculture and agriculture-related activities exposes smallholders to multiple risks. The two main ones are ***production risk*** due to costly farm inputs and labor, lack of irrigation systems and access to suitable technology, crop seasonality, and natural disasters; and ***marketing risk*** from the low price of rice and lack of transportation and marketing information.
- ***Smallholders are the primary food producers in the rice value chain (RVC).*** About 2.4 million farmers are engaged in rice production in the Philippines. Figure 7 shows the rice value chain. The stages of the RVC involve greater interaction among chain actors through value-adding activities (Mataia, et al., 2020).

Value chain actors are responsible for moving paddy and milled rice across markets in the country. These are transported from production surplus areas to deficit provinces and trading centers through various market channels. Government agencies and NGOs provide support services in the RVC (Mataia, Beltran, Manalili, Catudan, Francisco and Flores, 2020).

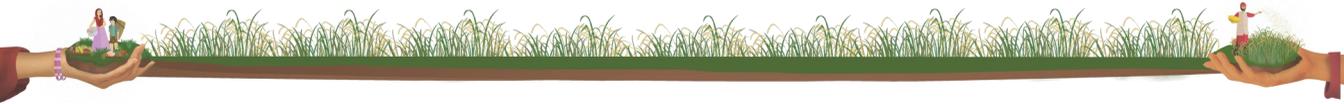
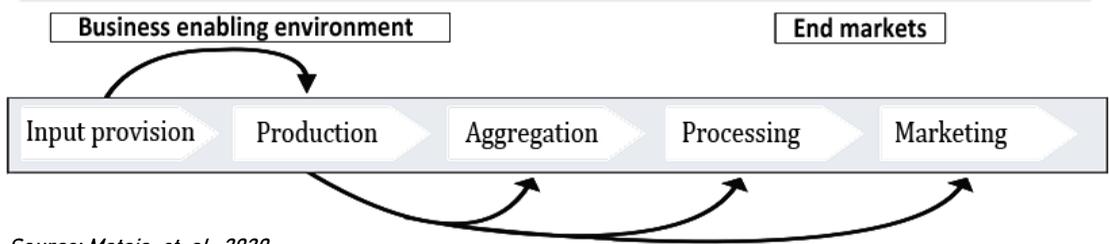


Figure 7. Rice Value Chain in the Philippines



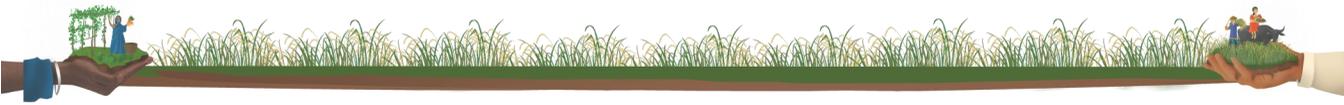
Source: Mataia, et. al., 2020

Key problems of smallholder rice farmers

- **Lack of credit access.** Lack of access to credit for daily food consumption and other expenses (education, medicines, etc.) and crop production constrains smallholders. Kloeppinger-Todd and Sharma (2010) explain that when the poor have limited saving or borrowing options, their investment plans are stifled and breaking out of poverty is harder. Households with no access to insurance or savings that can cover household and business expenses limit risk exposure even if high returns are likely. Small farmers secure credit for crop production and livelihood from formal financial institutions, i.e., State agencies with tie-ups with LBP and other private microfinancing institutions, and informal lenders.

In credit provision, traders and millers set the terms. The average loan amount is PhP 36,838 (approximately USD 734) with three to five percent interest per month for a four-month period (Mataia, et al., 2020).

- **Lack of transportation and poor access to post-harvest facilities and communication infrastructure.** Many smallholders are in areas with limited access to transportation, farm to market roads, post-harvest facilities, and, communication infrastructure. Farmers have complained of inaccurate weighing scales when selling their produce. Quality assessment of paddy grains is based on 14-percent moisture content; appearance; presence of foreign material; and, impurities. Moisture content (MC) is assessed by hard pressing the grain or biting it, but farmers think this practice does not determine actual MC. Farmers prefer to use certified seeds to grow quality grains and command better prices. However, rice traders undervalue their products by mixing different “certified rice varieties” called “*rumble*” to lower the price.
- **Dole-out mentality, fungibility of credit and traditional mindsets among farmers.** There are *misplaced mindsets* among farmers that money from government lending programs are grants that they need not pay back even if it was clarified during the program orientation that they have to repay their loans. *Fungibility* occurs when borrowers use the loans for other purposes. Despite opportunities for education and agricultural extension services, some farmers refuse to adopt modern farming technology to achieve higher productivity and income.



- **Poor market linkages.** With small volumes of produce, smallholders lack the ability and resources to negotiate prices. Most are unaware of market prices and are at the mercy of traders/millers. They have poor linkages and little access to formal and organized markets.
- **Adverse effects of climate change and natural disasters.** Small farmers are vulnerable to typhoons, changes in weather patterns, temperature, droughts, and lack of water supply. Many farmers have no access to crop insurance to mitigate risks and disasters.

The Agricultural Production Credit Program (APCP)

The APCP is one of the critical support services of CARP. The program was selected because:

- It pursues a clustering, multi-stakeholder approach;
- It is designed to meet the credit needs of ARBOs and ARBs engaged in agricultural crop production, agri-enterprise, and livelihood projects;
- It adopts a whole-of-government approach that includes credit and support services such as capacity building, strengthening links between farmers' organizations and agricultural extension services, facilitating access to modern farming technologies and innovations, providing rural infrastructures, marketing, and, communications; and,
- More lessons and insights can be derived from APCP implementation. Some new lessons have already emerged aside from the longstanding problems of smallholders related to existing land and agricultural policies, rice production, and financial management practices.

Description of the APCP

- **Overview.** The APCP is a PhP 2.5 billion (approximately USD 49.8 million) credit facility and capacity development program implemented jointly by the DA and the LBP with support from DAR, DENR and the PCIC.
- **Objectives.** The APCP aims to provide credit assistance to ARBs/ARBOs to ensure sustainable production of crops and increase farmers' productivity and income and strengthen ARBs and their organizations through capacity building and other support services.
- **Key program design features and components.** The APCP has three complementary components: *provision of agricultural production credit* where LBP provides credit for crop production, agri-enterprise, and/or livelihood projects to ARBOs, ARBs, and their households; *provision of agricultural production management and financial management support* where DA and its attached agencies provide technical assistance to eligible ARBOs including crop

insurance, organizational management, and marketing support; and, *institutional capacity building of eligible conduits* where DAR and DENR deliver training interventions and mentoring to raise the organizational maturity of ARBOs.

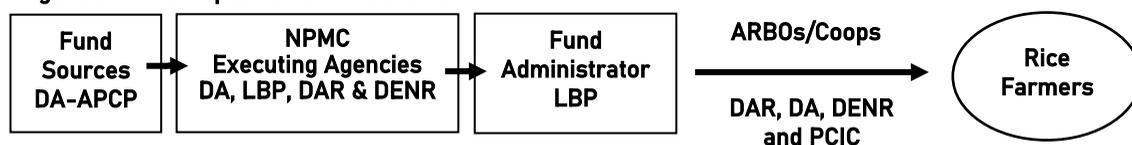
- **Program management and staffing.** A National Project Management Committee (NPMC) composed of officials from DAR, LBP, DA, DENR, and Department of Finance, and a farmer representative, oversees program implementation. It is chaired by an Undersecretary of the DA and co-chaired by an Undersecretary from the DAR. The NPMC provides direction and formulates policies on the program; approves the work and financial plan; monitors the overall performance of the ACP; acts on issues or concerns relative to program implementation; and, conducts program evaluation. It is supported by a Technical Working Group (TWG) that is headed by the Executive Director of the ACP and consists of technical staff from the represented agencies. A secretariat headed by the ACP supports the TWG and the NPMC.
- **Geographic and sectoral scope.** The ACP is implemented nationwide to support the rice producing regions, provinces and municipalities. ARBs and their organizations are clustered into four lending groups: Northern and Central Luzon, Southern Luzon, Visayas, and Mindanao.
- **Target beneficiaries and eligibility requirements.** The target clients are small rice farmers who are organized as associations or cooperatives. Below are the credit requirements (*Table 7*).

Table 7. Eligibility criteria and credit requirement for ACP

Eligible borrowers	<ul style="list-style-type: none"> ● ARB Organizations with ARB members (cooperatives and farmers’ organizations); other conduits
Eligibility criteria for borrowers	<ul style="list-style-type: none"> ● With legal personality duly registered with CDA or SEC ● Operational for the past six months ● With ARB members ● With core management team ● With systems and procedures in place particularly on lending
Projects that can be financed	<ul style="list-style-type: none"> ● Crop production ● Agri-enterprise and livelihood
Loan amount limit	<ul style="list-style-type: none"> ● Up to 80% of the total project cost ● For agri-enterprises and livelihood projects ● For those with existing crop production loan, up to 10% of the outstanding loan portfolio ● For those without existing crop production loan, not to exceed PhP1 million per ARBO
Interest rate	<ul style="list-style-type: none"> ● 8.5% p.a. for short term loans ● 9.5% p.a. for long term loans *inclusive 2% p.a. incentives for service conduits
Loan terms	<ul style="list-style-type: none"> ● For short term loans – term of not more than 1 year ● For long term loans – up to 7 years inclusive of 3-year grace period
Loan repayment scheme	<ul style="list-style-type: none"> ● Based on crop cycle, cash flow and/or remaining useful life of the asset finance
Collateral requirements	<ul style="list-style-type: none"> ● Deed of Assignment of promissory notes and underlying collateral ● Deed of Assignment of market contracts ● Deed of Assignment of crop insurance proceeds (if any) ● Chattel mortgage

- **Program implementation on the ground.** Funds came from the DA (PhP 2 Billion or approximately USD 39.8 million) and APCP (PhP 500 million or approximately USD 9.96 million). DAR has its own capacity building funds for smallholders. LBP lends to ARBOs while rice farmers are the end-users. Implementing agencies strengthen the capacity of farmers' organizations and cooperatives that serve as credit conduits to small farmers in remote areas.

Figure 8. ACPC Implementation Scheme



Source: Modified by Quitangon (2021) from the *Sikat Saka Assessment Study* by Quilloy and Asma, 2017

Lending policies and procedures are simple to facilitate credit access. The APCP can assist ARBOs that are normally not qualified to borrow from the regular lending program of LBP via the following: ARBOs that have been operating for less than six months can borrow from the program; the debt-to-equity ratio requirement is waived; and less stringent screening of ARBO borrowers is conducted.

The provincial and municipal offices of DAR, DA, and DENR provide capacity building to ARBO borrowers. DAR has assisted ARBs in loan applications and processing. The PARO/MARO has endorsed ARBOs/coops/associations as legitimate borrowers that were then assessed by LBP. If these borrowers are eligible with complete documentary requirements, LBP releases the loan within 30 days from proposal submission. DAR coordinates and liaises with LBP to follow up the status of loan approval and fund releases (Geron, et al., 2016; MMDC, 2020).

Major accomplishments of the APCP

- **Credit performance.** From October 2012 to February 2016, APCP lent out *PhP 1.95 billion (approximately USD 38.84 million)* to *526 ARBOs* (31,036 ARBs) with an 89.7 percent repayment rate and 10.54 percent past due rate. Loans repaid by members were used to provide loans to good-paying ARBO borrowers. However, some ARBOs were unable to pay their LBP loan because they were unable to collect from all the members. Since most ARBOs do not have buffer funds for relending, they chose to default on their LBP loans. This barred them from taking a re-loan from LBP. (Geron, et al., December 2016).

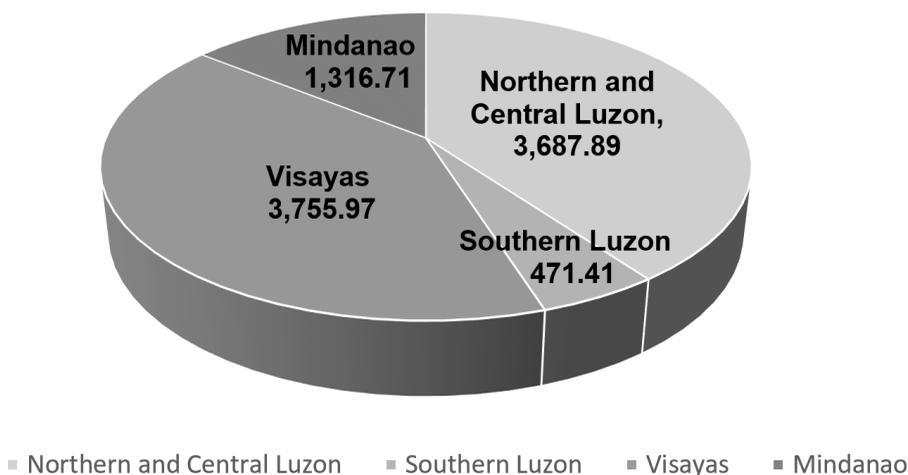
The APCP is now on its second cycle of program implementation, which runs from 2016 to 2022. LBP has extended a total of PhP 9.231 billion (approximately USD 184 million) in production loans to 886 ARBOs (or 68,963 ARBs) from October 2012 to 31 December 2020 (MMDC, 2020).

The Visayas has the most borrowers with 342 ARBOs (25,512 ARBs). This is followed by Northern and Central Luzon (240 ARBOs and 24,078 ARBs), Mindanao (200 ARBOs and 12,811 ARBs) and finally, Southern Luzon and Bicol

(104 ARBOs and 6,562 ARBs). The program's loan repayment rate, which had stood at 89.7 percent, dropped to 58 percent. It registered a 42 percent past due rate at the end of December 2020 (MMDC, 2020).

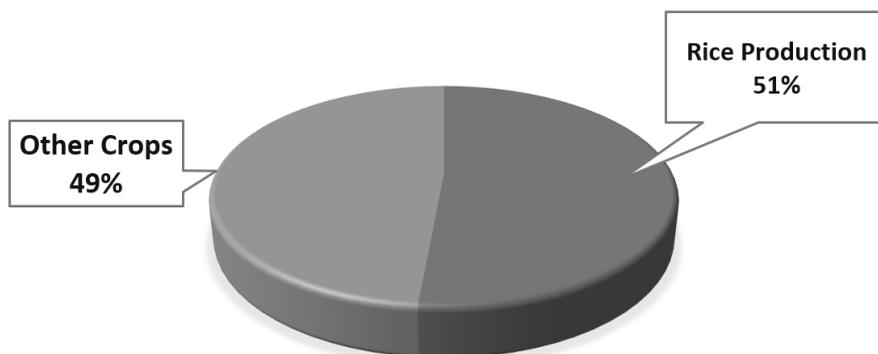
Program implementers said repayment declined because of natural calamities which resulted in lower productivity and income; pest infestation; and the adverse effects of the COVID-19 pandemic (FGD with ACPC, May 2021).

Figure 9. Four Major Lending Groups by Geographical Coverage
Cumulative Amounts in Million Pesos
(October 2012 to 31 December 2020)



Source: APCP, LBP as cited in MMDC, 2020

Figure 10. APCP Accomplishment
Total Loans Released PhP 9.231 B (approximately USD 184 M)



Source: APCP, LBP as cited in MMDC, 2020



- **Capacity building.** The capacity building program aims to strengthen ARBs and their organizations so they qualify for the regular lending program of LBP. It deploys consultants/mentors to assist ARBOs in developing an organizational vision and relevant operational policies, systems, and procedures; setting up the loan disbursement and repayment procedures; and, the institutional development and strengthening of ARBOs/coops to ensure economic viability and sustainability (Geron, et al., 2016).

DAR is the lead implementer for capacity building. It introduces and promotes the purpose and features of the program to agrarian reform beneficiary organizations (ARBOs) and ARBs in special meetings or during general assemblies. Interested ARBOs inform the DAR through development facilitators who then conduct a maturity assessment of the ARBOs using DAR's Information Technology Enabled Maturity Assessment (ITEMA) to check their eligibility under the program.

Upon identification of eligible ARBOs, DAR – with the support of LBP and PCIC – conducts orientation meetings on APCP to detail the roles of participating agencies, requirements, loan charges, loan collection and repayment, etc. On-site planning meetings to determine the needed production loans follow. The DAR training team, in coordination with DA municipal agricultural officers, assists ARBs in developing farm plans and budgets. DAR personnel assist ARBOs in their loan application and submission of documentary requirements. The PARO/MARO then endorses the ARBO loan proposal to the LBP lending window for approval (MMDC, 2020).

- **Capacity building accomplishments.** With support from LBP, PCIC and DA-LGUs, DAR provided four major types of training to ARBs and their organizations from January 2017 to May 2020, namely: Governance, Financial Management, Farm Technology, and, Agri-enterprise. Governance ranked first in terms of number of trainings conducted and participated in by ARBs/ARBOs (Table 8). Training on governance and financial management is conducted by the DAR-Program Beneficiaries Development Team while DA and DENR spearhead the training on farm technology and agri-enterprises.



Table 8. Accomplishment of Capacity Building per Category CY 2017 to 2020

INDICATORS	FINANCIAL	GOVERNANCE	FARM-TECH	AE/LIVELIHOOD	OTHERS	TOTAL
CY 2020						
NO. OF ARBO	251	195	19	18	129	612
NO. OF ARB	4,488	3,389	339	143	2,069	10,428
NO. OF TRAINING	203	158	11	7	96	475
CY 2019						
NO. OF ARBO	1,095	895	164	61	146	2,361
NO. OF ARB	17,988	13,187	3,679	948	1,420	37,222
NO. OF TRAINING	572	386	109	34	42	1,143
CY 2018						
NO. OF ARBO	1,015	1,136	227	135	9	2,522
NO. OF ARB	13,948	15,737	4,198	940	155	34,978
NO. OF TRAINING	511	485	133	47	9	1,185

Source: ACPC, 2020

Table 9 shows 2018 was the most productive year for capacity building. Due to calamities and the pandemic, 2020 had the least training courses given to the fewest ARBs and ARBOs).

Table 9. Accomplishment of Capacity Building Per Calendar Year 2017 to 2020

YEAR	No. of CapDev/ Training Interventions	No. of ARBOs Involved	No. of ARBs Covered
2020	475	612	10,420
2019	1,143	2,361	37,222
2018	1,185	2,522	34,978
2017	1,042	3,027	32,304

**The number of Capacity Development/Training Interventions as well as the Number of ARBOs Involved and ARBs Covered are service count, which means that the same number of ARBOs and ARBs are subjected to various and multiple training activities.*

- **Crop insurance coverage.** From 2014 to 2020, 114,105 farmers had crop insurance amounting to PhP 6.8 billion (approximately USD 135 million) with 20,852 claimants (18 percent) indemnified in the amount of PhP 264.44 million (approximately USD 5.27 million).
- **Support services.** DAR and DA delivered limited support services to ARBOs, including providing storage facilities that had previously prevented ARBOs from buying in bulk their members' produce to command better prices.

Design adjustments in the APCP made by government and their results

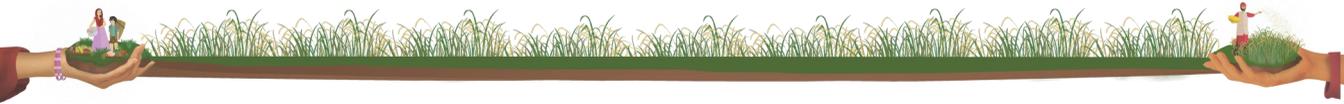
The government has made adjustments in the design of APCP to effectively raise farmers' access to timely, adequate, and affordable credit in line with efforts to find a balanced mix of lending features and practices that would allow farmers to optimize credit services that create huge positive impacts on their production and income (Quilloy and Asma, 2017).



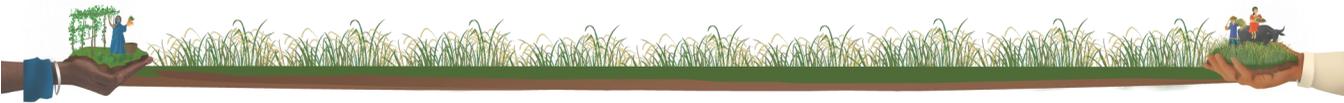
Table 10 summarizes the credit restrictions that inhibited small farmers from borrowing in past government credit programs and the adjustments made in the APCP. Table 10 was informed by the two FGDs conducted by ANGOC with rice farmers in the Visayas from June to July 2021.

Table 10. Credit Restrictions and Adjustments already made by the Philippine Government

Credit Restrictions	Adjustments made by Phil Government thru APCP	Remarks and Gaps in Program Implementation
A. Credit/Lending Program		
Inaccessibility	<ul style="list-style-type: none"> LBP Branches are based in strategic municipalities to cater to the needs of farmers. 	<ul style="list-style-type: none"> As a strategy, DAR/LBP has tapped ARBOs and coops as credit conduits in areas beyond their reach. However, there are few ARBOs to tap since most were unable to improve credit worthiness and reach organizational maturity.
	<ul style="list-style-type: none"> Provide sufficient information about the credit program through program orientation and meeting with ARBs. 	<ul style="list-style-type: none"> The government has adopted the commodity clustering approach to serve farmers. In Iloilo and Negros, the DAR-PBD team invited farmers for program orientation in ARC areas. In Leyte, farmers are invited to go to the LBP office for the program orientation on credit.
	<ul style="list-style-type: none"> Limited professional staff to serve farmers. 	<ul style="list-style-type: none"> All participants affirmed that additional staff are needed to facilitate efficient delivery of services.
Commodity specific credit policy	<ul style="list-style-type: none"> Adjusted credit policies from monocropping rice production to multicropping (corn, sugarcane, coconut, HVCs) and diversified farming through agribusiness and livelihood projects. 	<ul style="list-style-type: none"> All participants confirmed they were able to avail of loans for rice production and their other crops like cassava, sugarcane, cacao, etc. Some participants availed of loans for agribusiness and livelihood projects.
Risky to venture into agricultural production	<ul style="list-style-type: none"> Established Php2.5 billion guarantee fund in case of default payment. The PCIC provided full premium free crop insurance to reduce the risk of rice farmers against pest and calamities. 	<ul style="list-style-type: none"> The participants affirmed that the guarantee fund from DA/APCP and PCIC has made easier their access to loans. Crop insurance served as the farmers' safety nets during calamities.



<p>Lending institutions not within reach by small farmers</p>	<ul style="list-style-type: none"> • Farmers' organizations and cooperatives were allowed to serve as credit conduits. • DAR provided capacity building to farmers' organizations and cooperatives to improve their creditworthiness and effectiveness in the provision of services. • Participating ARBOs have qualified staff of credit manager, finance officer, and bookkeeper. • Functional administrative, financial, and bookkeeping systems were installed within the ARBOs. • Simplified credit policies and procedures were installed in the ARBOs. • ARBOs facilitate members' loan application, processing, monitoring and collection. • LBP provides loan restructuring to ARBOs in case of default payment by individual farmers. 	<ul style="list-style-type: none"> • All participants confirmed that the DAR provided capacity building to improve creditworthiness. • However, capacity building activities were irregular and there was a lack of follow-up training and mentoring to ensure that knowledge and skills were fully acquired by the trainees. Hence, many ARBOs have not reached their full potential as credit conduits for APCP. • In South Negros (from Bacolod to Hinobaan), 358 ARBs (almost 80 percent) failed to pay their leasehold obligations (Arienda) because farmers mismanaged their credit loans. • In Leyte, only one coop completed 12 loan cycles with LBP, while 19 farmers' coops experienced project mismanagement. These mismanaged coops lack social preparation to sustain their projects. They need follow-up trainings on values formation, leadership, financial management and enterprise development, including marketing support.
<p>Complicated loan application</p>	<ul style="list-style-type: none"> • DAR staff facilitate loan applications in the field, given the low literacy rate among small farmers. 	<ul style="list-style-type: none"> • All participants affirmed the important role of DAR in providing information on credit and facilitating loan applications of small farmers. • The endorsement and certification issued by the MARO/PARO facilitated the immediate approval and release of LBP loans to farmers. • However, in instances where the ARBO and member-ARBs only had a mother CLOA, such as in Iloilo, the absence of a technical description for the land survey made loan processing and approval difficult because the amount of the crop production loan could not be computed.



Difficult and lengthy loan procedures	<ul style="list-style-type: none"> LBP lending policies and procedures are kept simple to facilitate credit access of farmers' organizations and cooperatives. Newly organized farmers' organizations are allowed to borrow. They are not required to pass the regular cooperative accreditation and risk assessment criteria of LBP. 	<ul style="list-style-type: none"> All participants affirmed that the APCP lending policies and procedures are simpler compared with the regular LBP lending policies and procedures.
Too many documentary requirements	<ul style="list-style-type: none"> Fewer documentary requirements than those normally required by LBP and formal financial institutions. 	<ul style="list-style-type: none"> Some farmers are still experiencing difficulty in complying with the documentary and collateral requirements of the LBP. Eligible borrower must be a CLOA holder to be endorsed by DAR.
High interest rates	<ul style="list-style-type: none"> Affordable, low interest rates based on government regulations @ 1.25% per month. 	<ul style="list-style-type: none"> All participants affirmed the APCP has low interest rates compared with other lending institutions.
Delayed loan processing and release of funds	<ul style="list-style-type: none"> Despite limited staff, LBP tried its best to facilitate loan approval and release of funds. 	<ul style="list-style-type: none"> Loan processing and release of funds depend on the early submission and completeness of documentary requirements by farmers. Incompleteness of documentary requirements results in delayed loan processing and release of funds.
B. Credit Policies and Procedures		
Inadequate loan amount approved by the lending program	<ul style="list-style-type: none"> Loan approval limit for APCP loan is higher (PhP 5 million or approximately USD 99,602) than the regular LBP lending program (only PhP 1 million or approximately USD 19,920). 	<ul style="list-style-type: none"> All participants confirmed sufficient loan amounts were granted by the LBP. Some farmers even received PhP 50,000 (approximately USD 996) per hectate for crop production loans.
Collateral requirements	<ul style="list-style-type: none"> Innovative collateral substitutes accepted, such as assignment of crop insurance, chattel mortgage, guarantee and use of the PhP 2 billion (approximately USD 39.84 million) credit surety fund from DAR. 	<ul style="list-style-type: none"> Group lending was accepted. The MARO certifies that the farmers and their organizations are legitimate and duly registered with SEC/CDA. LBP accepted certificate of crop insurance and chattel mortgage as loan collateral. DAR guarantee funds used by LBP in case of default payment.
Lack of farmers' participation in planning credit programs	<ul style="list-style-type: none"> DAR coordinates closely and liaises with LBP on the status of loan approval and loan releases. 	<ul style="list-style-type: none"> The participants affirmed that DAR conducted its periodic consultations with farmers' organizations to follow-up loan repayments.

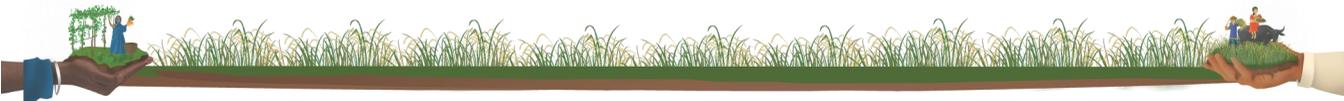
Source: FGDs with rice farmers (2021)

Key implementation challenges

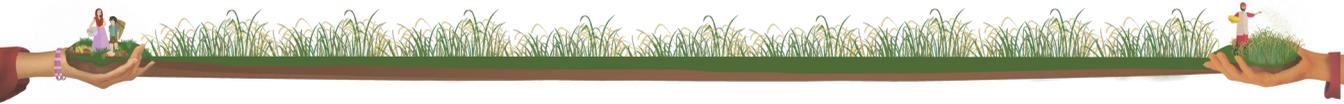
Table 11 highlights key challenges identified by the Mid-Term Program Evaluation Report (as shared by APCP to ANGO on 7 June 2021) conducted by the Multi-Sectoral Management Development Corporation (MMDC) commissioned by the ACPC. The study, conducted from 2017 to 2020, involved 15 ARBO-borrowers and 10 ARBO non-borrowers strategically distributed among the four lending groups of LBP.

Table 11. Identified Problems and Issues in APCP Implementation

Implementation Area	Identified Problems/Issues
Amount of Loans	<p>While DAR had allocated PhP 2.5 billion (approximately USD 49.8 million) as guarantee funds for APCP implementation, funds were not distributed to the lending centers based on the need of ARBs. Loan approval, which was done on a first-come, first-served basis, resulted in the uneven distribution of production loans depending on the capability of development facilitators.</p> <p>From October 2012 to December 2020, LBP extended total loans of PhP 9.231 billion (approximately USD 183.88 million) to 886 ARBOs (68,963 ARBs). Of this amount, 51.47 percent (PhP 5.147 billion or approximately USD 102.5 million) was released for rice production to 454 ARBOs (35,671 ARBs).</p> <p>The absence of benchmarks for target setting of borrowers made it difficult to identify and estimate the demand and supply for credit per region/province/municipality. The DAR reported that it had set targets but, according to the MMDC consultant, there is hardly any indication that these targets are used for planning on how much funds should go to the local chapters of LBP.</p>
Loan Interests, Pass-on Rates, Penalties, and Incentives	<p>The APCP loan interest is relatively low as borrowing conduits pay 8.5 percent interest rate per annum for short-term loans and 9.5 percent for long-term loans. For conduits, the pass-on rate to end-borrowers is up to 15 percent for short-term loans and up to 16 percent for long-term loans.</p> <p>In cases of late payments, the borrower is charged with three percent penalty per annum. As incentive, coop borrowers receive interest rebates of two percent per annum on the principal paid when the loan amortization is paid on time.</p> <p>While ARBs recognize that a pass-on 15 percent interest rate is reasonable since interest rates of private loans can go as high as 75 percent to 100 percent per annum, respondents have recommended strongly that the APCP loan interest rate should be on par with the other government credit programs – ACEF, AFFORD, and PLEA – which charge much lower interest rates. In Quezon Province and other areas, many microfinance institutions, including ASA and CARD, lend at two percent interest rate per annum.</p>
Loan Repayment Rates and Defaults	<p>The program has experienced low repayment rates and high loan defaults by ARBOs/ARBs. The ANGO research team validated this during the FGD with ACPC implementers in May 2021.</p> <p>The repayment rate for ARBOs dropped from 89.7 percent (PIDS, 2016) to 58 percent in 2020, while the past-due rate registered at 42 percent. Reasons cited by LBP were: a) lack of social preparation of ARBOs; b) lack of LBP staff to supervise and monitor closely the APCP implementation; c) ARBO areas are isolated and difficult to reach; and, d) application</p>



	<p>of the Rice Tariffication Law that resulted in the influx of imported rice and low buying prices for <i>palay</i>. In turn, this resulted in low income for farmers and their inability to pay their loans with LBP.</p> <p>ARBs loans have almost the same repayment and past due rates at 50 percent each. Most ARBs (87 percent) cited crop failure due to calamities and drought that hit their provinces as the major reason for default payment although they were covered by crop insurance. Some ARBs said they were not indemnified by PCIC because of drought and late submission of reports.</p>
<p>Capacity-Building of ARBOs</p>	<p>From 2017 to 2020, 3,845 capacity building activities were conducted by DAR to benefit 114,924 ARBs (8,522 ARBOs).</p> <p>However, only 16 of the 885 ARBOs became eligible for the LBP regular lending program. The bases for ARBO eligibility are: a) ARBOs have fully paid their loans for at least two cropping cycles; b) ARBOs have no outstanding loans from other sources; c) ARBOs are engaged in lending operations using internally generated resources; d) ARBOs are using their own farm machineries/equipment for rent by members and non-members; e) ARBOs have legitimate ARB members; f) ARBOs have fully functional credit, education and membership committees, sound policies, financial management, systems and procedures in place; and, g) ARBOs have a strong core management team.</p> <p>Moreover, even qualified ARBOs did not want to access credit from the LBP regular lending windows for the following reasons: too much paperwork, high interest rate, payment of premiums for crop insurance, much consumption of time and money in loan application and follow-up, etc.</p> <p>The low number of eligible ARBOs indicates a need to improve the APCP capacity building program for ARBOs to reach their full potential in terms of organizational development, financial literacy, management, and, technical capability.</p> <p>Some ARBOs are requesting for refresher courses for their new officers and members. Unfortunately, DAR only has PhP 2 to PhP 4 million (approximately USD 39,841 to USD 79,682) per annum, which is extremely limited to meet the demands for training.</p>
<p>Crop Insurance Coverage</p>	<p>All APCP borrowers are provided with free crop insurance by PCIC.</p> <p>From 2014 to 2020, a total of 114,105 farmers were covered by crop insurance of PhP 6.8 billion (approximately USD 135.5 million) that cost a premium of PhP 656 million (approximately USD 13.1 million). For the same period, a total of 20,852 farmer-claimants were indemnified with the aggregate amount of PhP 264.44 million (approximately USD 5.27 million). As of 30 June 2020, the PCIC fund utilization rate was slightly higher at 90 percent compared with 86 percent in 2014.</p> <p>Despite the orientation sessions conducted by PCIC, DAR and LBP, many ARBs still do not fully understand their insurance policies. According to the survey in 2018, some farmers believe that, in the event of a calamity, they will get full payment of their production costs. However, many were disappointed when the drought occurred and they were not indemnified by PCIC. It appeared the drought is not included in the list of calamities covered by the insurance. Other ARBs were also not indemnified by the PCIC when they failed to beat the cut-off date for the submission of their reports and other requirements. In addition, for those who were paid, the amounts received were lower than their loans.</p>



	<p>Once the DAR-PARO has endorsed the qualified ARBOs and member-farmers to the LBP, the PCIC issues the insurance policy in the name of the farmer. Few farmers understand, however, that their policy is assigned to LBP which collects the indemnity as part of the payment for the ARB's production loan. Since the insurance premium is subsidized 100 percent, no cash really passes through the hands of the farmer borrower.</p> <p>The review consultant also noted the need for ACPC to validate in the field the list of farmers who are given insurance for purposes of checks and balance.</p> <p>Further, since crop insurance is an important component of the Program, the PCIC should be represented in the NPMC and TWG.</p>
<p>Provision of support services by DAR and DA provided to the ARBOs</p>	<p>While support services were delivered by the DAR and DA to the ARBOs, these were limited. For instance, the lack of storage facilities prevented ARBOs from buying in bulk and sell cheaper products for their members. Likewise, ARBOs lack the warehouse storage area to buy and store their members' produce in order to command better price by taking advantage of the economies of scale.</p>

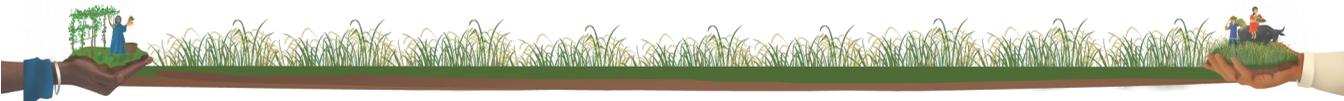
Source: MMDC, (2020)

Persistent challenges and proposed solutions

Table 12 shows persistent and unresolved challenges and solutions proposed by the rice farmers in the Visayas to improve the APCP implementation.

Table 12. Persistent Challenges and Proposed Solutions by Farmers in the Visayas

Perceived Constraints	Proposed Solutions
<p>Limited number of LBP staff to service farmers, causing delayed release of funds</p>	<ul style="list-style-type: none"> • Increase the number of staff in charge of agri-credit to three for Negros Occidental North (Districts 1, 2 and 3) and 3 for Negros Occidental South (Districts 4, 5 and 6).
<p>Lack of sufficient and timely information on credit</p>	<ul style="list-style-type: none"> • Intensify information – via IEC and tarpaulins – on how to avail of APCP loans and other support services; these should be posted within the <i>barangay</i>, especially in areas with high numbers of agrarian reform beneficiaries and farmers.
<p>Too many documentary requirements</p>	<ul style="list-style-type: none"> • Review credit policies and requirements to reduce documentary requirements.
<p>Lack of follow-up and close monitoring of credit program</p>	<ul style="list-style-type: none"> • Stringent and close monitoring of loans, especially for new applicants.
<p>Lack of competent and qualified program manager, bookkeeper, and auditor for the ARBOs</p>	<ul style="list-style-type: none"> • DAR and LBP must ensure and encourage the recruitment and training of qualified program manager, bookkeeper, and auditor for ARBOs.
<p>Lack of credit windows for women and youth</p>	<ul style="list-style-type: none"> • Provide credit windows for women and youth to support family farming and the development of their farmlands.
<p>Lack of training for the women and youth as second liners</p>	<ul style="list-style-type: none"> • DAR should develop training programs for women and youth as second liners for the long-term sustainability of the ARBOs.



<p>Adverse effects and impact of COVID-19 pandemic</p>	<ul style="list-style-type: none">• DAR should have at least two staff per area who are knowledgeable and mindful of the COVID-19 health protocols and these should conduct training in the field to mentor and monitor the farmers' organizations.• Farmers should be gathered in one venue and provided free transportation during training to minimize their costs, control mobility, and reduce exposure to COVID-19.• Training should include helpful tips and health protocols on COVID-19. The government must ensure the safety of farmers by providing protective masks/face shields during trainings.• Online loan applications through accessible and approachable hotline agents should be accepted.• Basic Information should be disseminated through social media platforms, e.g., postings on FB page, to provide reliable information on the credit programs and other services.
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Source: FGD with Rice Farmers, 2021

Analysis of factors affecting credit access

Credit access. Access to credit is limited to ARBs excluding leaseholders and farmworkers directly tilling the former's lands. The APCP also limited participation of women and the youth.

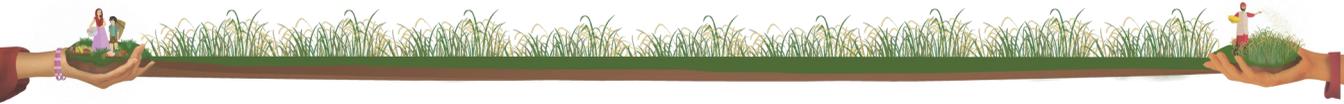
On limited service coverage of LBP offices and physical farm location of smallholders. The limited area coverage of LBP made the credit program less accessible to farmers in remote areas considering transportation costs and other expenses in following up loan approval.

On availability of credit funds and approval of loanable amount for crop production Sufficient funds for credit are available for farmers' rice/crop production and for agribusiness and livelihood projects. The PhP 2.5 billion (approximately USD 49.8 million) credit facility served as guarantee for the production and marketing risks in rice production as well as a buffer to ensure the continuous APCP operations.

On the conduct of regular communication to ARBs/ARBOs Rice farmers asked government agencies to hold regular dialogues with ARBs/ARBOs, intensify information dissemination, and promote the credit program in strategic places. They proposed online loan applications and called for complete and concise information on crop insurance.

On the institutional capacity of LBP to effectively deliver the credit program in an efficient and timely manner. LBP accepted certificates of crop insurance and chattel mortgage as collaterals. Group lending was allowed. The farmers said more staff would expedite loan processing. They also want fewer documentary requirements.

On credit loan processing and approval. Access to credit and the loan amount are subject to LBP's evaluation of farm plans, taking into consideration tenurial status, farm size, land use, the adoption of modern farm technologies, and labor supply.



On farmer's tenurial status. Fast track the parcelization of CLOA to better serve rice farmers in accessing credit through CARP/CARPER. APCP implementers should develop policies for the credit needs of leaseholders and landless farmworkers who depend on informal lenders.

On small farm size with a good farm plan. In principle, a small manageable farm with a good farm plan is better than a large farm not fully optimized for productive use.

On land use and adoption of appropriate farm technology. All respondents plant rice with secondary crops to prevent soil acidity. Most farmers in the study have adopted conventional farming (25 percent) and low-external-input sustainable agriculture (LEISA) plus integrated pest management (62.5 percent). Only one farmer (12.5 percent) has adopted pure organic farming.

On labor supply. Labor is critical in seed and land preparation, transplanting, harvesting, threshing, hauling, drying, and storage. In family farming, the extent of labor support provided by women and adult children based on their capability and availability is important in determining the saving labor schemes of rice farmers.

On the effectiveness of capacity building and readiness of ARBOs as eligible credit conduits under APCP. In 2020, the MMDC reported that out of 885 ARBOs, only 16 were eligible for LBP's regular lending program. This study noted cases of loan defaults by coops which key informants ascribed to the lack of competent program managers, bookkeepers, and auditors in ARBOs.

Looking to the future

Table 13, which is based on the e-survey conducted by the ANGO C research team, shows factors that farmers consider in accessing credit. Some non-APCP respondents prefer the service of cooperatives because of the benefits they receive through patronage. One raised the need for life insurance as social protection on top of crop insurance. Another pushed for the adoption of organic farming technology.



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Table 13. Farmers' Preferred Features of a Credit Program

Knowledge and Perceptions	APCP Beneficiaries	Non-APCP Beneficiaries
Factors in choosing a credit facility	<ul style="list-style-type: none"> • Low interest rate • Minimal requirements • Easy loan application and fast processing of requirements • Collateral is not required • Good and accommodating staff to assist the farmers 	<ul style="list-style-type: none"> • Low interest rate • Minimal requirements • Cooperative providing accessible credit program to farmers • Accommodating staff • With life insurance as social protection
Expectations among credit programs within their area	<ul style="list-style-type: none"> • Low interest rate • Minimal requirements • Easy/fast process/transaction • Material collateral is not needed • Loans available for crops production and livelihoods • The staff know how to assist the farmers 	<ul style="list-style-type: none"> • Low interest rate • Minimal loan requirements • Accessible credit program for smallholder farmers • Proper information is provided to the farmers • Accommodating staff
Recommendations to improve accessibility of credit in local areas	<p>A) Lending Institutions/Program</p> <ul style="list-style-type: none"> • For the Government to provide farmers with appropriate orientation and knowledge about the program • Staff are knowledgeable to discuss clearly the program with the clients • Borrowers are well-assisted and advised in utilizing their money wisely <p>B) Lending Policies/Procedures</p> <ul style="list-style-type: none"> • Faster process/transaction • Access to information <p>C) For Farmers</p> <ul style="list-style-type: none"> • Fellow farmers to pay loans 	<p>A) Lending Institutions, Policies/ Procedure</p> <ul style="list-style-type: none"> • Proper information disseminated through social media (not just through seminars) <p>B) For Farmers</p> <ul style="list-style-type: none"> • For fellow farmers to pay loans on time • For fellow farmers to utilize the loan appropriately

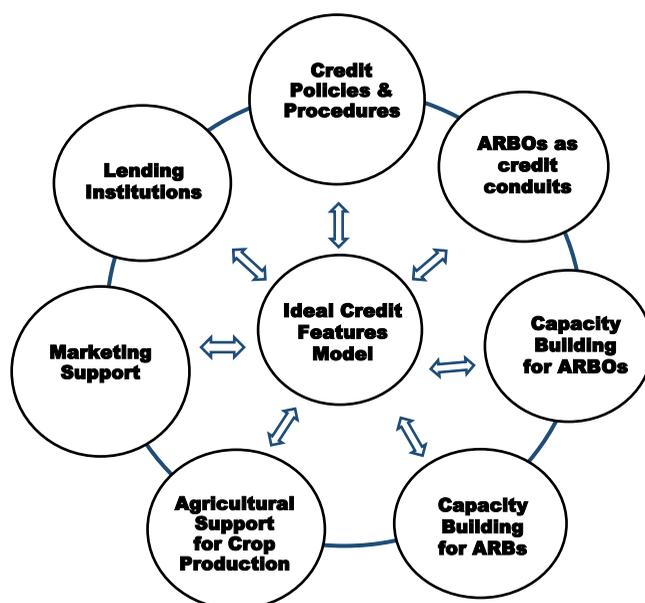
Source: FGDs with Rice Farmers, 2021

Farmers' priority features of an "ideal" credit program

Based on the credit preferences of the key respondents, the previous assessment on the Sikat Saka Program for rice farmers (Quilloy and Asma, 2017), and direct experience with APCP implementation, a model of an ideal credit program was developed which espouses a value chain approach that covers the full range of activities from credit provision to consumer sales. The following are the four touchstones:

- a. **Finance/credit** that is accessible, appropriate, relevant and useful to smallholders;
- b. **Production**, which implies the adoption of appropriate farm technologies that are site-specific, environment-friendly and least costly through family farming;
- c. **Management** to strengthen the entrepreneurial skills of ARBs and institutional capacity building of ARBOs to become credit conduits of LBP with the end goal of people's empowerment; and,
- d. **Marketing support** to wean farmers' organizations away from traditional channels to alternative marketing arrangements (e.g., supermarkets, national people's cooperatives, institutional arrangements with national government and LGUs, CSOs, private sector) in selling their rice and other agricultural products, especially in this time of pandemic.

Figure 11. Seven Dimensions of Ideal Credit Design/Model



As shown in Figure 11, the seven dimensions of this ideal credit design were presented to the rice farmers to determine accessibility, appropriateness, relevance, and usefulness. Farmer-participants ranked preferences, values, needs and priorities. They selected the four most important of the seven dimensions. The top four priorities are the minimum, non-negotiable, and indispensable criteria of an ideal credit program design and would constitute the best scenario for small farmers.

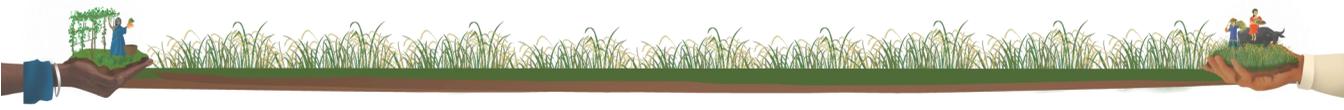
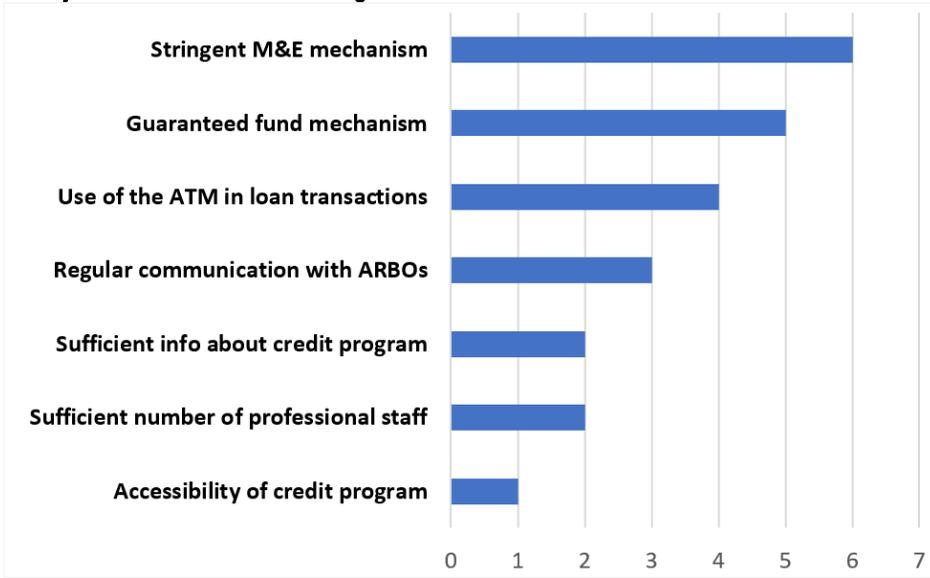


Figure 12. Key Features of Credit Lending Institutions



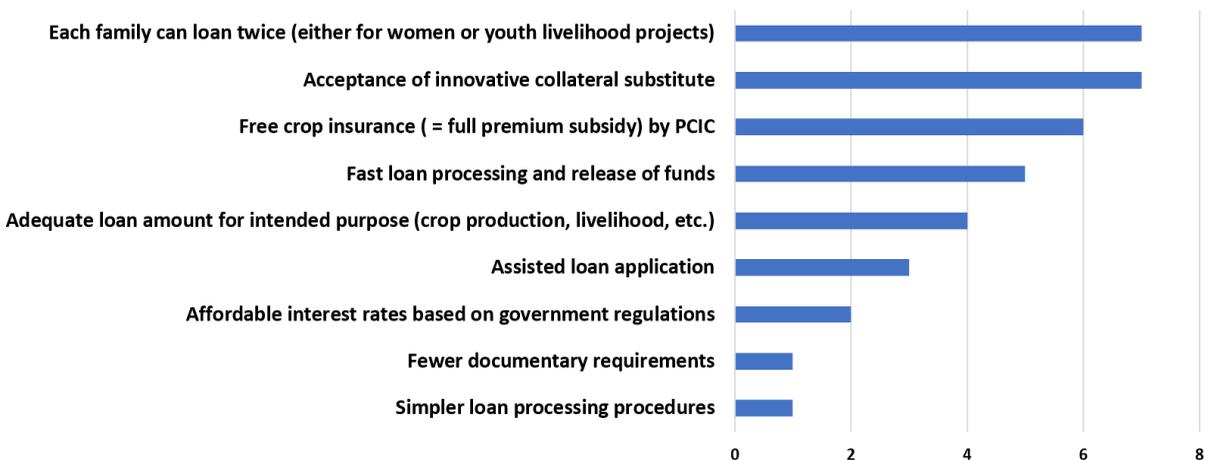
The top priorities for features of credit lending institutions are:

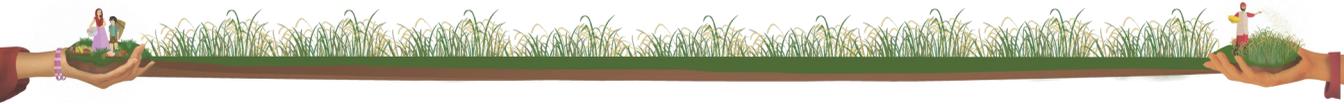
- a. Credit program accessibility;
- b. Sufficient professional staff who provide credit information;
- c. Regular communication with ARBOs; and,
- d. Use of ATMs in loan transactions for easy access to cash given the pandemic.

For features on credit policies and procedures, the following four are the top priorities of the participants:

- a. Simple loan processing procedures and fewer documentary requirements;
- b. Affordable interest rates;
- c. Assisted loan application; and,
- d. Adequate loan amount for crop production.

Figure 13. Key Features of Credit Policies and Procedures

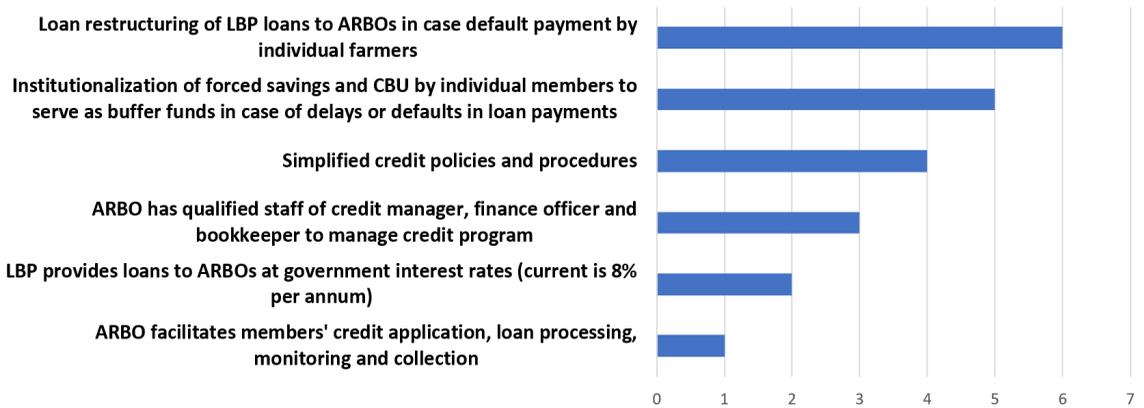




The following are the five priorities in terms of the desired features of ARBOs as credit conduits:

- a. Facilitate members' credit application, loan processing, monitoring, and, collection;
- b. Government interest rates for LBP loans;
- c. Loan application assistance;
- d. Qualified credit manager, finance officer, bookkeeper; and,
- e. Simplified credit policies and procedures.

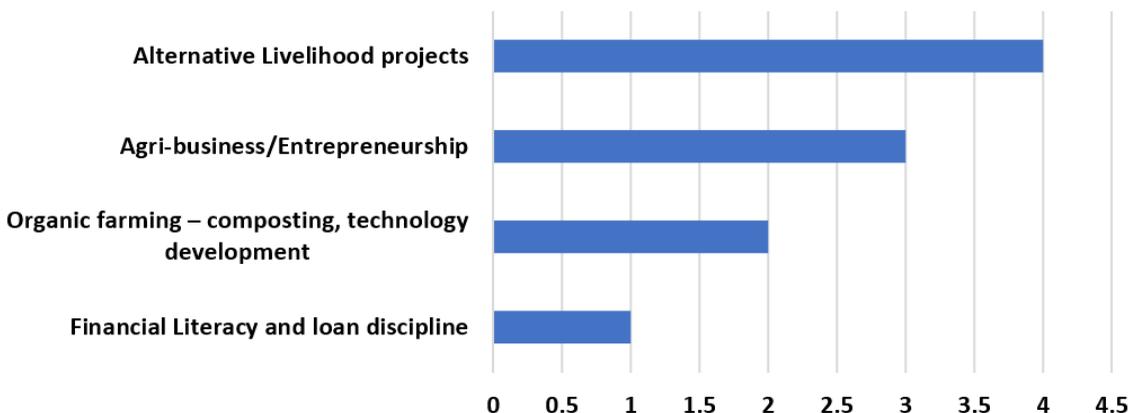
Figure 14. Key Features of ARBOs as conduit of credit program

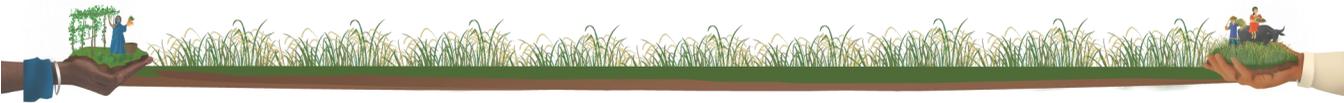


The top four priorities in terms of the desired key features of ARB capacity building are:

- a. Financial literacy and loan discipline;
- b. Organic farming;
- c. Agribusiness and entrepreneurship; and,
- d. Alternative livelihood projects.

Figure 15. Key Features of Capacity Building for ARBs

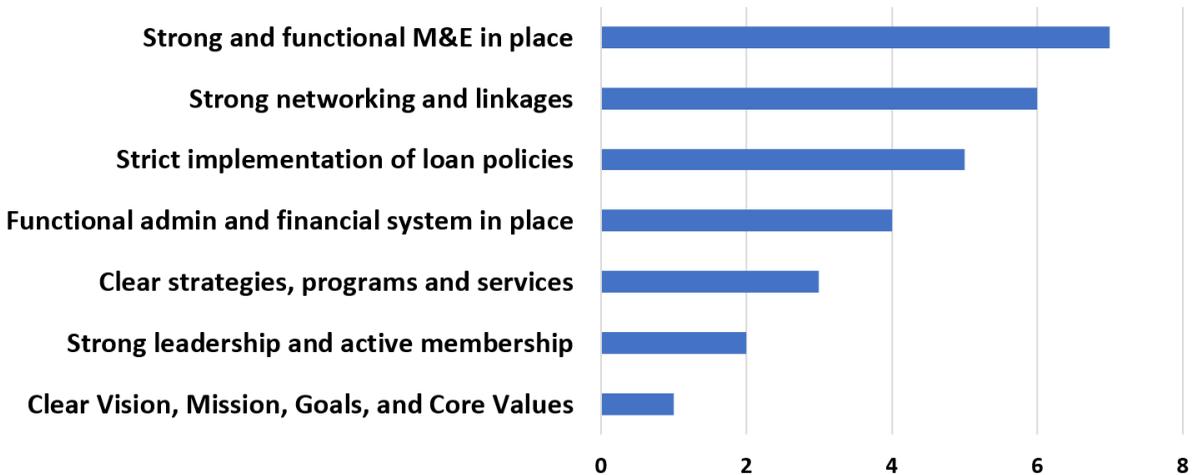




The top four priorities in terms of the desired key features of capacity-building for their organizations are:

- a. Clear vision, mission, goals, core values;
- b. Strong leadership, active membership;
- c. Clear strategies, programs, services; and,
- d. Functional financial and administrative system in place.

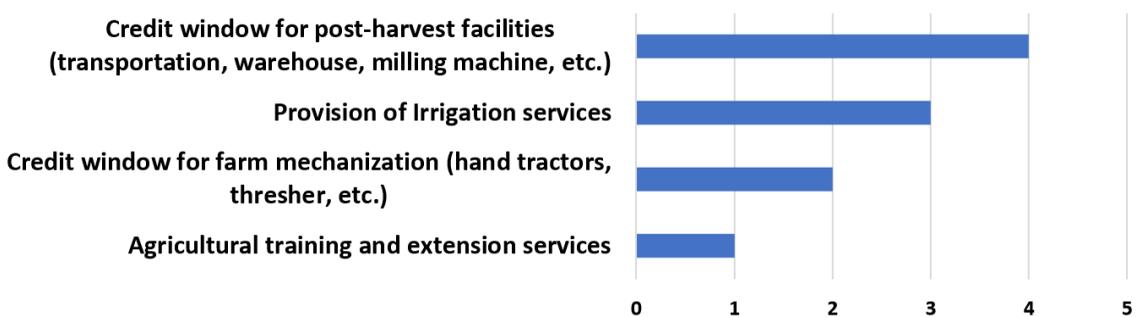
Figure 16. Key Features of Capacity Building towards strong ARBOs



The four priorities for features that support crop production are:

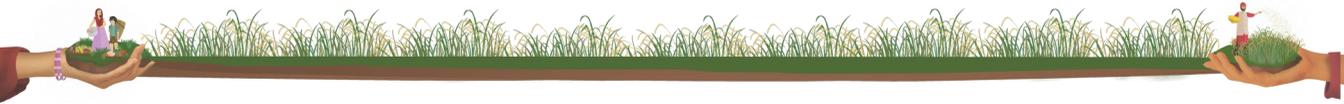
- a. Agricultural training, extension services;
- b. Credit windows for farm mechanization;
- c. Provide irrigation; and,
- d. Credit windows for post-harvest facilities

Figure 17. Key Features of Agricultural Support for Crop Production



The top priorities for marketing support features are:

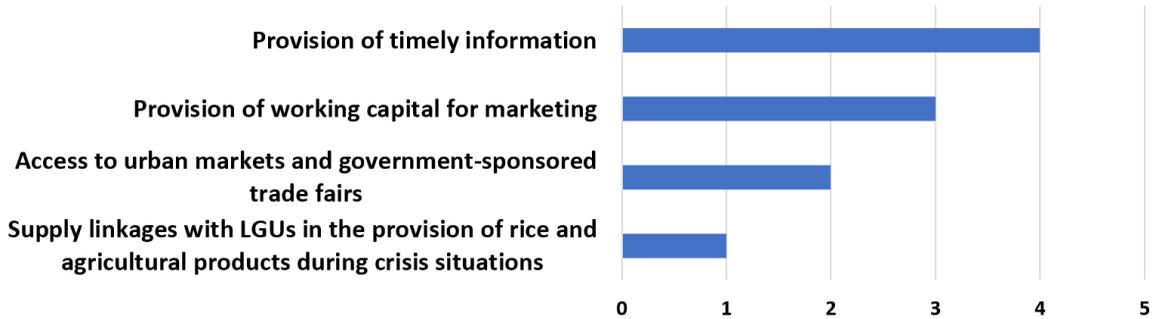
- a. Linkages with LGUs in providing rice during crises;
- b. Access to urban markets and trade fairs;
- c. Working capital for marketing; and,
- d. Provision of timely information.



The top priorities for marketing support features are:

- a. Linkages with LGUs in providing rice during crises;
- b. Access to urban markets and trade fairs;
- c. Working capital for marketing; and,
- d. Provision of timely information.

Figure 18. Key Features of Marketing Support



Moving on: specific recommendations on the current program

Improve the APCP capacity building program. Apart from natural disasters and the effects of climate change, the rural situation has worsened due to the Covid-19 pandemic that has restricted the movement of farm laborers to support rice production and the marketing of agricultural goods. State agencies should consider the following for capacity building:

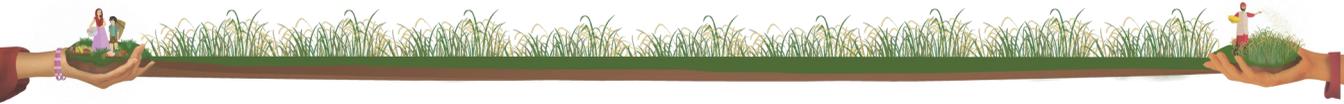
- **Review APCP objectives to see if these are realistic and consistent with LBP's regular credit program to assist ARBs/ARBOs.** There is a need to strengthen the capacity of farmers' organizations to overcome the limited coverage of LBP and serve farmers in remote areas. But ARBOs are not only meant to be credit conduits and marketing channels for the adoption of modern farming technology. Capacity building is integral for farmers' self-sufficiency, self-reliance, autonomy, and resilience to natural disasters, climate change, and the pandemic.
- **Establish and develop a comprehensive database of smallholder rice farmers containing information on loan repayment record, loan default, and creditworthiness.** This provides useful information to policymakers and program implementers in the following areas:
 - a. As basis for LBP to create policies and set criteria in fund allocation to lending centers consistent with the Philippine Rice Master Plan and the productivity and competitiveness of rice producing regions, provinces, and municipalities;
 - b. As a benchmark for setting targets during strategic assessment and planning where program performance is in terms of target vs actual outputs and assessed through feedback and analysis of factors affecting program operations;

- c. As basis for conducting training needs assessment in the capacity building program;
- d. As basis to increase the program budget based on the review of the APCP capacity building program target by geographical coverage vis-a-vis the required manpower, with the objective of recruiting more mentors for consistent trainings, monitoring, coaching, and evaluation of ARBs/ARBOs, farmers' organizations, and cooperatives; and,
- e. Implementing agencies should consider accepting online loan applications.



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- **Provide support services in an effective and timely manner.** PIDS noted that agricultural credit is necessary but insufficient to improve the income levels of small farmers. It revealed implementing agencies provide limited and sporadic support services to help ARBs/ARBOs access farm mechanization, post-harvest facilities, and marketing support. These are recommendations to improve the delivery of timely support services in rural areas:
 - a. A multi-agency, on-call TWG for support services that would involve other agencies for their expertise such as NIA (irrigation), BSWM (soil/water management and organic farming), DTI and LGUs (marketing support), DPWH (infrastructure), CDA (coop development) including CSOs (for organizing and capacity building of farmers), Phil Rice, IRRI and the academe;
 - b. Hike investment in agriculture to ensure the timely and adequate delivery of support services and infrastructure, review the present budget allocation vis-a-vis the needs of ARBs/ARBOs, and identify strategic investments in ARC support services to create high impact.



Policies on site selection of investments should be reviewed, including: the presence of strong ARBs/ARBOs; ARBs/ARBOs with access to agricultural extension, irrigation facilities, suitable land use for rice production, and practicing crop rotations.

Improve the credit scheme. The respondents are satisfied with the repayment schemes and interest rates but would welcome better terms.

Enhance women's participation. Provide credit windows for women and youth to support family farming and the development of their farmlands. DAR should develop training programs for women and youth as second liners for the long-term sustainability of the ARBOs.

Strengthen support for organic farming. The study found that the APCP is not yet fully supportive of the adoption of organic farming. Farmers who prefer organic farming technology may be excluded from availing of credit assistance. This study supports the promotion of organic farming technology for APCP. Rice farmers should be allowed to choose their farming technology.

Provide documentation on the free crop insurance coverage. Many ARBs do not fully understand their free crop insurance policies. The study recommends that farmers be given a hard copy of PCIC policies in a popular language understandable to them that provides a clear computation of the indemnification amount a claimant will receive in calamities. PCIC should simplify documentary requirements; extend the deadline of document submission; and, include drought in its insurance package.

Responding to the COVID-19 pandemic. Basic Information should be disseminated through social media platforms, e.g., postings on the FB page, to provide reliable information on the credit programs and other services. Online loan applications through accessible and approachable hotline agents should be accepted. The use of the ATM in loan transactions for easy access of cash given the pandemic. The training design/module should include tips and health protocols on COVID-19. ■



List of acronyms

ADB	Asian Development Bank
AFMA	Agriculture and Fisheries Modernization Act
ANGOC	Asian NGO Coalition for Agrarian Reform and Rural Development
APCP	Agrarian Production Credit Program
ARBs	agrarian reform beneficiaries
ARBOs	agrarian reform beneficiary organizations
CARRD	Center for Agrarian Reform and Rural Development
CARP	Comprehensive Agrarian Reform Program
CADT	Certificate of Ancestral Domain Title
CBFM	Community-Based Forest Management
CLOA	Certificate of Land Ownership Award
CLT	Certificate of Land Transfer
CSO	Civil Society Organization
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DENR	Department of Environment and Natural Resources
FGD	Focus Group Discussion
GLARC	Guim-o Layan Agrarian Reform Cooperative
IPs	Indigenous Peoples
IPRA	Indigenous People's Rights Act
IRR	Implementing Rules and Regulations
Kaisahan	Kaisahan tungo Sa Kaunlaran Ng Kanayunan at Repormang Pansakahan Inc.
KASAPPI	Katilingban sang Agraryo Padulong sa Pag-uswag sang Iloilo Agrarian Reform Cooperative
OFWs	Overseas Filipinos Workers
LAD	Land Acquisition and Distribution
LBP	Land Bank of the Philippines
MNDC	Multisectoral Management Development Corporation
NEDA	National Economic Development Authority
ORKALEFF	Ormoc Kananga Leyte Farmers Federation
PFC	Philippine Fisheries Code
PhP	Philippine Peso
PIDS	Philippine Institute for Development Studies
RA	Republic Act
SUFA	Salvacion United Farmers Association
SFF	Small Farmers and Fishers
UDHA	Urban Development and Housing Act

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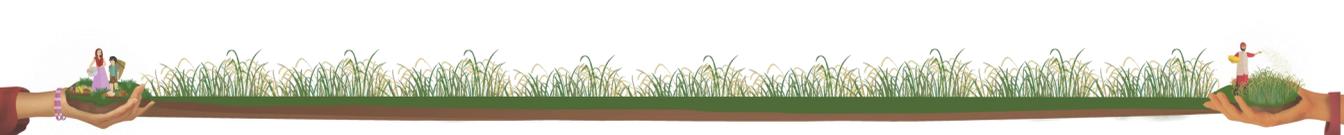
FGD respondents

- Guim-o Layan Agrarian Reform Cooperative
- Kaisahan tungo Sa Kaunlaran Ng Kanayunan at Repormang Pansakahan, Inc. (Kaisahan)
- Katilingban sang Agraryo Padulong sa Pag-uswag sang Iloilo Agrarian Reform Cooperative (KASAPPI)
- Ormoc Kananga Leyte Farmers Federation (ORKALEFF)
- Salvacion United Farmers Association

Center for Agrarian Reform and Rural Development (CARRD) and (Kaisahan) as local hosts

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 - Rogelio Gibe
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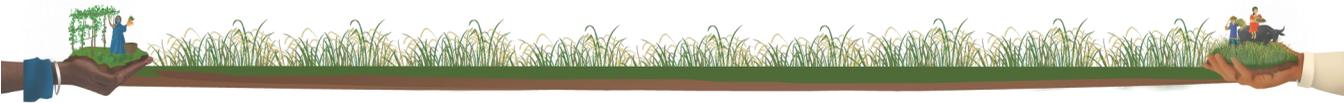
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Small farmers in Asia contribute significantly to the world's supply of staples such as rice, corn, root crops, and pulses. Ironically, agricultural producers are among the most food-insecure and poorest segments of Asian populations.

The vulnerabilities of smallholders have been exposed further during the COVID-19 pandemic: though small producers remain at the frontlines of the pandemic, they also experience weakened purchasing power, livelihood insecurity, and hunger, largely as a result of the disruption of local and global food chains. These suggest that despite numerous agrarian reform and land distribution programs and attempts to raise farmer incomes, smallholder farming is still a precarious endeavor with low returns.

A major constraint to the productivity of farmers is their lack of access to sufficient support and credit for investing in crops, technology, or security amidst risks and in the face of shocks. Though credit programs are available, the agricultural sector is risky and unpredictable owing to higher transaction costs of farm credit, unaffordability of the loans, inflexibility of payment schemes, low capital returns in agriculture, and swaying environmental and market factors.

This publication, featuring studies on public agricultural credit assistance programs in Bangladesh, India, Indonesia, Nepal, and the Philippines; analyzes the relevance, appropriateness, accessibility, and usefulness of the selected programs; and, proposes recommendations for government lending institutions to improve smallholders' access to and utilization of such programs.

