PROGRAM AND OUTCOMES

REPORT

MUKTINATH AGRI FINANCE 360

मुक्तिनाथ विकास बैंक

MUKTINATH BIKAS BANK

This Program and Outcomes Report presents the proceedings and outcomes of the **"Muktinath Agri Finance 360: Empowering Agriculture, Enabling Growth"** program, held on January 2, 2026 in Kathmandu. The program was organized by Muktinath Bikas Bank Limited as an agricultural finance initiative to mark its 19th anniversary. This report documents the key discussions, insights, and findings of the program, reflects the perspectives of diverse stakeholders, and provides contextual analysis along with relevant policy recommendations for the concerned entities and stakeholders.

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MUKTINATH AGRI FINANCE 360

Empowering Agriculture. Enabling Growth.

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"जनता बैंकमा होइन, बैंक जनतामा जानु पर्दछ"

Foreword

Message from the Chairman

Agriculture remains central to Nepal's economy, supporting livelihoods, food security, and economic development. Despite its importance, the sector faces persistent structural challenges, including but not limited to low productivity, fragmented landholdings, weak value-chain linkages, climate vulnerability, gaps in the overall agricultural ecosystem, and the absence of a dedicated apex body for sector coordination. Experience shows that credit expansion alone is insufficient. Sustainable agricultural transformation requires an integrated ecosystem approach that aligns finance with policy, markets, risk-mitigation mechanisms, and institutional capacity.

The **Muktinath Agri Finance 360: Empowering Agriculture, Enabling Growth** program was convened with this perspective as a structured platform for evidence-based dialogue among policymakers, regulators, academicians, researchers, banks and financial institutions, private-sector actors, and practitioners. The program aimed to identify systemic barriers in agricultural finance and to generate practical recommendations to strengthen value-chain-oriented investment in Nepal's agricultural sector.

This report has been prepared to ensure that the key insights, evidence, and recommendations derived from the Agri Finance 360 program are systematically documented and preserved. It combines policy and institutional analysis, sectoral analysis, and a structured synthesis of multi-stakeholder perspectives to present a coherent understanding of the underlying issues. These insights are translated into clear and targeted recommendations for relevant institutions, which will be formally shared with all relevant stakeholders to support implementation and follow-through.

At Muktinath Bikas Bank Limited (MNBBL), agriculture is integral to our institutional identity and long-term vision. Our engagement with the sector extends beyond lending to fostering ecosystem development through partnerships, innovation, and value-chain-based approaches. The Muktinath Agri Finance 360 initiative is therefore envisioned as a continuing platform rather than a one-time program, with similar engagements to be organized in the future to support sustained dialogue, learning, and coordination among stakeholders. This report is intended to serve as a useful reference for stakeholders working toward a more inclusive, resilient, and productive agricultural ecosystem in Nepal.

I would like to extend my sincere thanks to my colleagues on the Board and the senior management team for their invaluable support in making this program a success. My special appreciation goes to Mr. Prabin Kumar Kafle for his efforts in preparing this report, and to Ms. Namrata Shrestha and Mr. Sanjiv Poudel for their insightful contributions. I also wish to acknowledge Mr. Govinda Bahadur Raut for his strategic guidance throughout the program and the report preparation. Finally, I am grateful to the government agencies, regulatory bodies, and partner organizations whose engagement has been essential in advancing a sustainable agri-finance ecosystem.

Mr. Khim Prakash Malla
Chairman
Muktinath Bikas Bank Ltd.

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List of Acronyms

Agri-MSME	Agricultural Micro, Small, and Medium Enterprises
BFIs	Banks and Financial Institutions
Bio	Billion
CAGR	Compound Annual Growth Rate
CEO	Chief Executive Officer
CSR	Corporate Social Responsibility
DBAN	Development Banker's Association of Nepal
DCGF	Deposit & Credit Guarantee Fund
ED	Executive Director
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
FY	Fiscal Year *(Note: Nepal's fiscal year starts from mid July)*
GDP	Gross Domestic Product
LCA	Life Cycle Assessment
MFIs	Micro Finance Institutions
MKCL	Muktinath Krishi Company Limited
MNBBL	Muktinath Bikas Bank Limited
MoALD	Ministry of Agriculture and Livestock Development
Mio	Million
MSME	Micro, Small, and Medium Enterprises
NBA	Nepal Bankers' Association
NARC	Nepal Agricultural Research Council
NFIA	Nepal Financial Institutions Association
NIA	Nepal Insurance Authority
NMBA	Nepal Microfinance Banker's Association
NPC	National Planning Commission
NPL	Non-Performing Loan
NPR	Nepalese Rupees
NRB	Nepal Rastra Bank
PSL	Priority Sector Lending
t/ha	Tons per hectare
USD	United States Dollar
VCF	Value Chain Financing

Executive Summary

Key Messages

1. **Agriculture remains macro-critical but structurally constrained.**
Agriculture contributes around one-quarter of Nepal's GDP and supports more than half of the population, yet productivity remains low by regional standards due to fragmented landholdings, weak agri ecosystem, limited mechanization, climate vulnerability, and weak market linkages.

2. **Expanding credit volumes alone has not delivered sector transformation.**
Despite increased priority sector lending mandates, agricultural finance remains largely concentrated at the production stage, with limited financing across the broader 360 degree agri-value chain, including storage, processing, logistics, and marketing.

3. **Risk, rather than demand, is the binding constraint in agricultural finance.**
Despite adequate liquidity in BFIs, weak project proposal capacity, limited farmer awareness, small and fragmented landholdings, informal tenure arrangements, price volatility, and climate shocks undermine borrower bankability and discourage cash-flow-based and value-chain-oriented lending.

4. **Agriculture requires an ecosystem approach, not a credit-only solution.**
Sustainable agricultural finance depends on integrating credit with insurance, technical assistance, aggregation mechanisms, market access, and reliable data systems.

5. **Incentive-based regulation can crowd in quality private finance.**
Instead of a "stick only" approach**,** aligning regulatory incentives through risk- sharing mechanisms, credit guarantees, and differentiated prudential/capital treatment can encourage BFIs for productive and sustainable agricultural lending.

6. **Institutional innovation is essential for value-chain financing.**
Models that integrate finance with ecosystem facilitation such as BFIs partner with agribusinesses and cooperatives to bundle credit with inputs, insurance, and assured markets demonstrate how banks can de-risk agricultural investments while supporting inclusion, productivity, and commercialization.

7. **Coordinated policy action.**
A collaborative effort is required across all levels of government including alignment of subsidies, grant , extension services, and public infrastructure investments with bank-financed agricultural projects. **A dedicated regulatory authority for agri-companies is needed to strengthen value chain integration and to ensure policy stability.**

8. **Platforms such as Agri Finance 360 can catalyze systemic reform.**
Structured multi-stakeholder dialogue helps bridge gaps between policy intent and implementation and supports evidence-based reform.

Agriculture remains a foundational pillar of Nepal's economy. However, despite its central role, the sector continues to underperform relative to its potential, constrained by low productivity, fragmented landholdings, lack of agri eco system, weak value-chain integration, climate risks, and limited access to effective financial services. These structural challenges persist even as Nepal's macroeconomic environment shows signs of gradual stabilization, with real GDP growth reaching 4.6 percent in FY 2024/25, inflation moderating sharply, and external balances strengthening.

Within this macroeconomic context, agricultural finance has emerged as both a policy priority and a systemic bottleneck. Regulatory mandates have expanded the volume of agricultural credit; however, outcomes remain mixed. Agricultural lending portfolios continue to exhibit elevated non-performing loan (NPL) ratios, access to formal finance remains limited for smallholders, and financing for downstream value-chain activities remains underdeveloped. This reflects a persistent gap between policy intent and on-the-ground impact.

The *Muktinath Agri Finance 360: Empowering Agriculture, Enabling Growth* initiative was convened to address this disconnect by reframing agricultural finance as an ecosystem challenge rather than a narrow credit allocation exercise. The initiative brought together policymakers, regulators, financial institutions, private-sector actors, and practitioners to identify structural constraints and practical reform pathways. **Discussions emphasized that agricultural transformation requires integrated solutions that align finance with risk mitigation, technical capacity, and market access.**

A key finding of the initiative is that **agricultural finance in Nepal remains overly concentrated at the production stage.** While productivity has improved primarily through yield gains, Nepal continues to lag behind regional peers. Inadequate irrigation, mechanization, storage, logistics, and market infrastructure limit farmers' ability to generate stable cash flows, reinforcing conservative lending practices and constraining sustainable credit expansion.

Structural features such as declining average landholdings, informal tenure arrangements, the feminization of agriculture, and youth outmigration further weaken borrower bankability. Although regulatory flexibilities exist, uneven implementation and persistent risk aversion limit their effectiveness. **Evidence from Nepal and comparable economies underscores that finance alone cannot transform agriculture; coordinated ecosystem development is essential.**

MNBBL's institutional experience illustrates how banks can move beyond standalone lending toward value-chain-oriented engagement. Through its agriculture-first legacy and the establishment of Muktinath Krishi Company Limited (MKCL) as an ecosystem facilitator, MNBBL demonstrates a practical pathway for de-risking agricultural investments while advancing inclusion, technology and commercialization.

The report concludes that Nepal's agricultural transformation will require a decisive shift from fragmented, credit-only interventions toward integrated agri-finance ecosystems. Priority sector mandates must be complemented by incentive-based regulation, effective risk-sharing mechanisms, coordinated public investment, and institutional innovation. Platforms such as Agri Finance 360 provide a credible foundation for aligning stakeholders and translating policy ambition into measurable development outcomes.

1. Introduction and Report Overview

1.1 Macroeconomic Overview

The Nepalese economy has been navigating a period of gradual recovery following several years of subdued growth. Real GDP expanded by 4.6 percent in FY2024/25, up from 3.7 percent in the previous fiscal year, supported by rebounds in manufacturing and construction alongside steadier agricultural output.[1] Besides agriculture, industry and services contributed to the overall growth trajectory, reflecting a modest economic diversification. According to Nepal Rastra Bank (NRB), headline consumer price inflation moderated significantly in FY2024/25, averaging around 4 percent and remaining below the central bank's 5 percent ceiling, driven primarily by easing food and energy prices as well as subdued domestic demand, with further softening observed in early FY2025/26. Year-on-year inflation declined sharply to 1.11 percent by mid-November 2025, indicating weak demand-side pressures.[2]

Exports recorded robust double-digit growth, supported by higher shipments of selected manufactured and agro-processed products, while remittance inflows continued to strengthen, resulting in a sizable balance of payments surplus and maintaining comfortable foreign exchange reserves. If we analyze the latest macroeconomic trend, despite these improvements in the external position, the trade deficit remained elevated due to a sharp increase in imports. Meanwhile, private sector credit growth and investment remained weak, consistent with NRB's cautious monetary stance, but also reflecting subdued demand, rising non-performing loans, and cautious lending behavior by banks.[3]

Preliminary estimates indicate that agricultural growth of 3.3 percent was complemented by industrial expansion of 4.5 percent, driven largely by construction and manufacturing activity, and service sector growth of 4.2 percent, which benefited from a gradual recovery in trade and transport, although tourism remained subdued. These sectoral developments sustained overall real GDP growth of 4.6 percent in FY2024/25 and underscore the importance of targeted policy and investment interventions to enhance productivity, resilience, and sustainable development in Nepal.[4]

Recent macroeconomic indicators provide additional insight into macro-financial conditions in early FY2025/26. Gross foreign exchange reserves rose to NPR 3,055.52 billion (USD 21.52 billion), equivalent to 17.4 months of prospective merchandise and services imports, significantly

[1] World Bank, *Nepal Development Update: Reforms to Accelerate Public Investment* (Washington, DC: World Bank, 2025), 1–2, https://documents1.worldbank.org/curated/en/099548411112541261/pdf/IDU-ba05d530-4963-4bbf-88e3-c094e89fbf3d.pdf.

[2] Nepal Rastra Bank, *Current Macroeconomic and Financial Situation of Nepal (Based on Four Months' Data of 2025/26)* (Kathmandu: Nepal Rastra Bank, December 15, 2025), https://www.nrb.org.np/contents/uploads/2025/12/Current-Macroeconomic-and-Financial-Situation-English-Based-on-Four-Month-data-of-2025.26.pdf.

[3] Nepal Rastra Bank, *Annual Macroeconomic and Financial Situation Report of Nepal (FY 2024/25)* (Kathmandu: Nepal Rastra Bank, 2025)

[4] World Bank, *Nepal Development Update: Reforms to Accelerate Public Investment*, 1–2.

strengthening external buffers. On the fiscal side, government expenditure reached NPR 468.88 billion during the first four months of the fiscal year 2025/26, while revenue mobilization amounted to NPR 326.55 billion, reflecting continued fiscal pressures. Monetary conditions remained accommodative, but transmission to the real economy was limited. Deposits of banks and financial institutions(BFIs) grew by 3.1 percent, and private sector credit increased 1.2%. Short-term interest rates remained low, with the weighted average inter-bank rate at 2.75 percent and the 91-day Treasury bill rate at 2.37 percent. The weighted average deposit rate of commercial banks stood at 3.74 percent, while the average lending rate remained at 7.38 percent, underscoring ample liquidity amid weak credit demand.[5]

Overall, the Nepalese economy is experiencing a recovery that is externally supported but domestically fragile. Strong exports, remittances, and high foreign exchange reserves provide stability, but weak private sector credit growth and subdued domestic demand highlight structural constraints that could limit investment-led growth unless monetary and fiscal measures are effectively transmitted to the real economy.

Role of Agriculture in the Economy

The agricultural sector, which remains central to rural livelihoods and food security, contributed positively to this growth, expanding by 3.3 percent during the same period. This growth was largely driven by a 4 percent increase in paddy production, rising from 5.72 to 5.96 million metric tons, facilitated by improved seed availability and favorable monsoon conditions, despite localized flooding in September 2024. Agriculture continues to underpin economic stability in Nepal, contributing approximately one-quarter of GDP in FY2024/25, and serving as the primary source of employment and income for a large share of the population. Despite these gains, the sector's transformation from subsistence-oriented production toward commercialized, high-value agriculture remains constrained by persistent structural challenges, including climate vulnerability, limited adoption of modern technologies, and gaps in the supporting ecosystem, such as irrigation, storage, and market access. Looking ahead, agricultural growth is expected to moderate in FY2025/26 due to delayed planting in key regions, particularly in the Madhesh Province, but is projected to recover in FY2026/27, contingent on favorable weather conditions. These dynamics highlight both the resilience and fragility of Nepal's agricultural sector and its critical role in sustaining long-term economic growth and rural livelihoods.[6]

1.2 The Agri-Finance Landscape: Opportunities and Structural Constraints

Financial intermediation in agriculture remains a policy priority for both the Government of Nepal and the Central Bank. Under the amended Unified Directives of the NRB, commercial banks are required to progressively increase the share of their credit portfolio directed to priority productive sectors, including agriculture and small and medium enterprises. Current phased targets require commercial banks to allocate at least 12 percent of credit to agriculture sectors by FY 2025/26, rising in subsequent years to reach 15 percent by FY 2027/28.[7] Despite

[5] Nepal Rastra Bank. *Current Macroeconomic and Financial Situation of Nepal: Based on Four Months' Data Ending Mid-November 2025/26*. Kathmandu: Nepal Rastra Bank, 2025.

[6] World Bank, *Nepal Development Update*, 8–9.

[7] "NRB Extends Timeline for BFIs to Meet Sectoral Lending Requirements," *ShareSansar*, June 25, 2025, accessed January 5, 2026, https://www.sharesansar.com/index.php/newsdetail/nrb-extends-timeline-for-bfis-to-meet-sectoral-lending-requirements-2025-06-25

this regulatory push, substantive gaps remain between policy objectives and credit outcomes on the ground. Access to formal credit for many smallholder farmers remains limited, with a majority still dependent on informal sources or self-financing for working capital and investment needs. High collateral requirements, procedural complexities, and uneven risk perceptions in lending practices further constrain broader participation by agri-enterprises.

Asset quality pressures have also emerged within the banking sector. The ratio of non-performing loans (NPLs) climbed to 4.6 percent by the end of FY 2024/25[8], and further rose to 5.26% as of Mid October 2025[9], partly reflecting vulnerabilities associated with primary production and other sectors. Operational hurdles, including risk management deficiencies and uneven portfolio diversification, continue to constrain confidence and add to the cost of credit for agricultural borrowers.

The majority of agricultural loan business plans are currently developed by individuals without specialized expertise in agriculture. Yet, agriculture is inherently a technical discipline grounded in science and technology. Furthermore, these loan proposals are typically evaluated by banking professionals who likewise lack domain-specific knowledge in the sector. This disconnect underscores a critical gap: agricultural loan business plans and proposals should be prepared and assessed by experts from the agricultural field or the banking professionals are trained to ensure accuracy, relevance, and sustainable impact.

Although Nepal Rastra Bank has addressed the structural problems through its recent amendments by introducing production and cash collection-based repayment schedules and asset provision norms, this alone doesn't seem to address the challenges.

1.3 The "Agri Finance 360" Paradigm

Aligned with global frameworks such as the World Bank Group's and the International Finance Corporation's Agri-Food Systems Transformation agenda, the "Agri Finance 360" paradigm emphasizes integrated financial solutions that go beyond standalone credit. **The 360-degree approach embeds agricultural finance within a broader ecosystem of risk mitigation instruments, including insurance, government incentives and policy, technical assistance, and strengthened market linkages, to address production, market, and supply-chain risks faced by agri-enterprises.**The Muktinath Agri Finance 360 initiative represents a localized application of this paradigm, fostering collaboration among regulators, financial institutions, and value-chain actors to de-risk agricultural investments and accelerate commercialization, while contributing to Nepal's long-term goals of enhanced agricultural productivity and competitiveness.

1.4 Report Objectives and Structure

This report provides a strategic synthesis of the multi-stakeholder interaction held during the Agri Finance 360 program. It aims to offer a roadmap for transitioning from a compliance-driven lending environment to an incentive-based, value-chain-integrated framework that channels

[8]Nepal Rastra Bank, *Banking and Financial Statistics, Mid-July 2025* (Kathmandu: NRB, 2025).

[9] Nepal Rastra Bank, *Current Macroeconomic and Financial Situation of Nepal (Based on Four Months' Data of 2025/26)* (Kathmandu: Nepal Rastra Bank, September 15, 2025), accessed January 7, 2026, https://www.nrb.org.np/contents/uploads/2025/12/Current-Macroeconomic-and-Financial-Situation-English-Based-on-Four-Month-data-of-2025.26.pdf.

finance into productive and scalable agricultural enterprises. The report is organized as follows:

Section 1: Introduction and Report Overview sets the macroeconomic and agricultural context of Nepal while introducing the Agri Finance 360 framework that underpins the report.

Section 2: Setting the Stage: Keynote Perspectives on Nepal's Agri-Finance Sector presents high-level insights on sector structure, productivity trends, and key policy and financing opportunities and challenges.

Section 3: Institutional Context outlines MNBBL's strategic positioning and its role in promoting inclusive and sustainable agricultural finance.

Section 4: Muktinath Agri Finance 360: Program Overview describes the background, objectives, and strategic rationale of the Agri Finance 360 program.

Section 5: Key Discussions and Session Highlights synthesizes perspectives and deliberations from policymakers, regulators, BFIs, and panel discussions.

Section 6: Key Takeaways from the Agri Finance 360 Program distills the principal constraints, opportunities, and lessons emerging from the multi-stakeholder consultations.

Section 7: Strategic Recommendations and Way Forward presents targeted, actionable recommendations for regulators, line ministries, financial institutions, insurance authorities, and ecosystem actors.

Section 8: Conclusion summarizes the key findings and outlines the way forward for strengthening agricultural finance in Nepal.

2. Setting the Stage: Keynote Perspectives on Nepal's Agri-Finance Sector

(Synthesis and analysis of the keynote presentation on "Opportunities and Challenges in Agri-MSME financing in Nepal" by banking expert Mr. Ajay Shrestha)

2.1 Sector Structure and Growth Challenges

The agricultural sector in Nepal has exhibited relatively stable real GDP growth over time from a macroeconomic perspective. Year-on-year real GDP growth in agriculture has neither fallen below 2 percent nor exceeded 5 percent, remaining largely within a stable range of 2-3 percent. Instances where growth approached 5 percent were primarily driven by favorable rainfall and monsoon conditions rather than structural improvements or specific policy interventions. In contrast, non-agricultural sectors have experienced significant volatility, with growth rates fluctuating between 10.18 percent during FY **2016/17** and negative 4.42 percent during **FY 2019/20**, largely due to external shocks such as blockades. **This indicates that agriculture is relatively less affected by external sector disruptions compared to other segments of the Nepalese economy**.

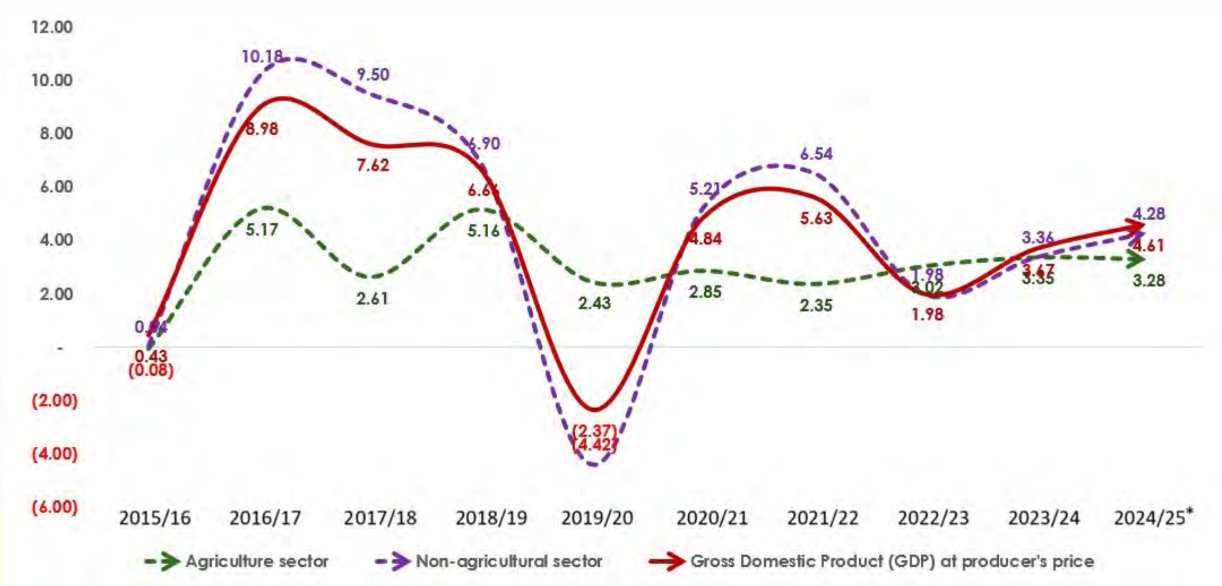

Fig 1: Real GDP Growth by Sector at Constant Prices (Base Year 2010/11)

In terms of gross output by industrial division at current prices, agriculture, forestry, and fishing recorded a gross output of NPR 1,354 billion in FY 2024/25, while other sectors accounted for NPR 4,753 billion, giving agriculture a share of 22.2 percent.

NPR Bio

	2022/23	2023/24	2024/25*
Agriculture, Forestry and Fishing	1,143	1,249	1,354
Other Sectors	4,224	4,460	4,753
TOTAL	5,367	5,709	6,107

21.3%　　22.2%

Fig 2: Gross Output of Agriculture and Other Sectors at Current Price

Over the past decade, the agriculture sector has demonstrated a steady upward trend. At constant prices, agricultural gross output increased from NPR 541 billion to NPR 728 billion, corresponding to a CAGR of 3.4 percent, while at current prices it rose from NPR 666 billion to NPR 1,354 billion, reflecting a CAGR of 8.2 percent and highlighting the impact of inflation. In comparison, gross output in other sectors at current prices expanded more sharply from NPR 1,943 billion to NPR 4,753 billion at CAGR of 10.5% at current prices, and from NPR 1,159 billion to NPR 1,760 billion at CAGR of 4.8%, **indicating that inflationary effects have been relatively stronger in non-agricultural sectors than in agriculture, as illustrated in figure 3**.

NPR Bio

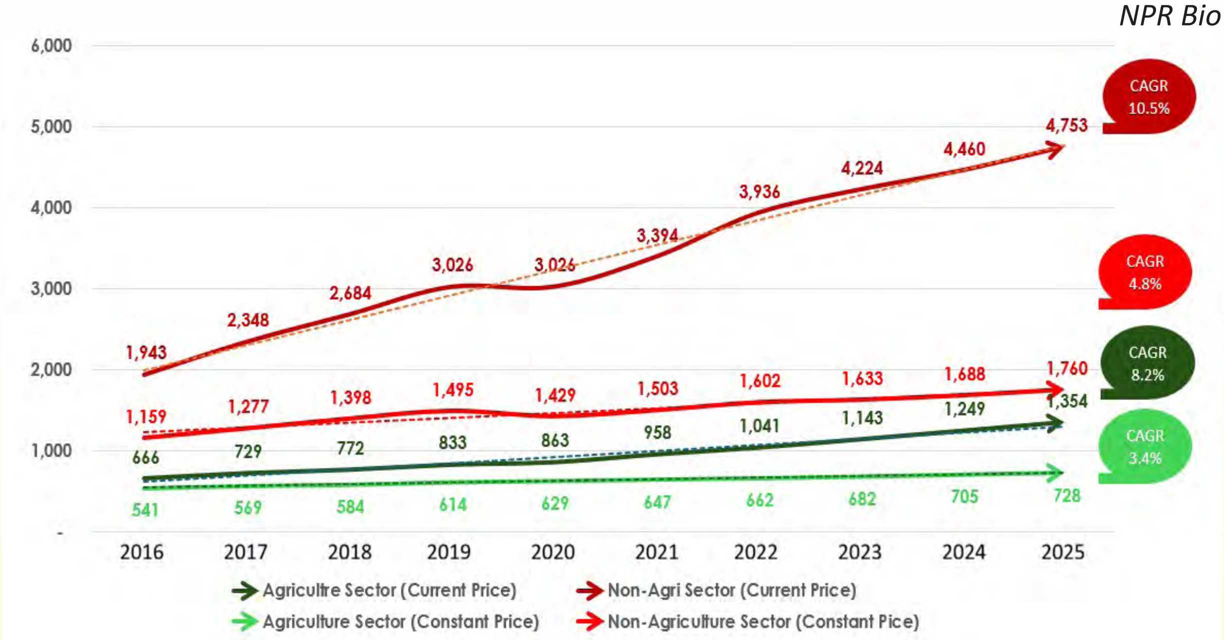

Fig 3: Time-Series of Gross Output of Agri & Non-Agri Sectors at Current & Constant Price

An analysis of gross output across industrial divisions further shows that agriculture, forestry, and fishing record the highest output at NPR 1,803.89 billion, followed by manufacturing at NPR 1,103.61 billion and the trading sector at NPR 980.23 billion as illustrated in figure 4. Construction and real estate activities generate comparatively lower gross output of NPR 749.14 billion and NPR 551.99 billion, respectively. While real estate remains among the prominent sectors attracting bank lending, the output distribution depicted in figure 4 presents a more comprehensive reality. The data challenges the widespread narrative that bank credit is overwhelmingly concentrated in real estate alone. Instead, it highlights the significant economic weight of productive sectors such as agriculture, manufacturing, and trade, underscoring the need to view credit allocation within a broader, multi-sectoral economic context rather than through a single-sector lens.

NPR Bio

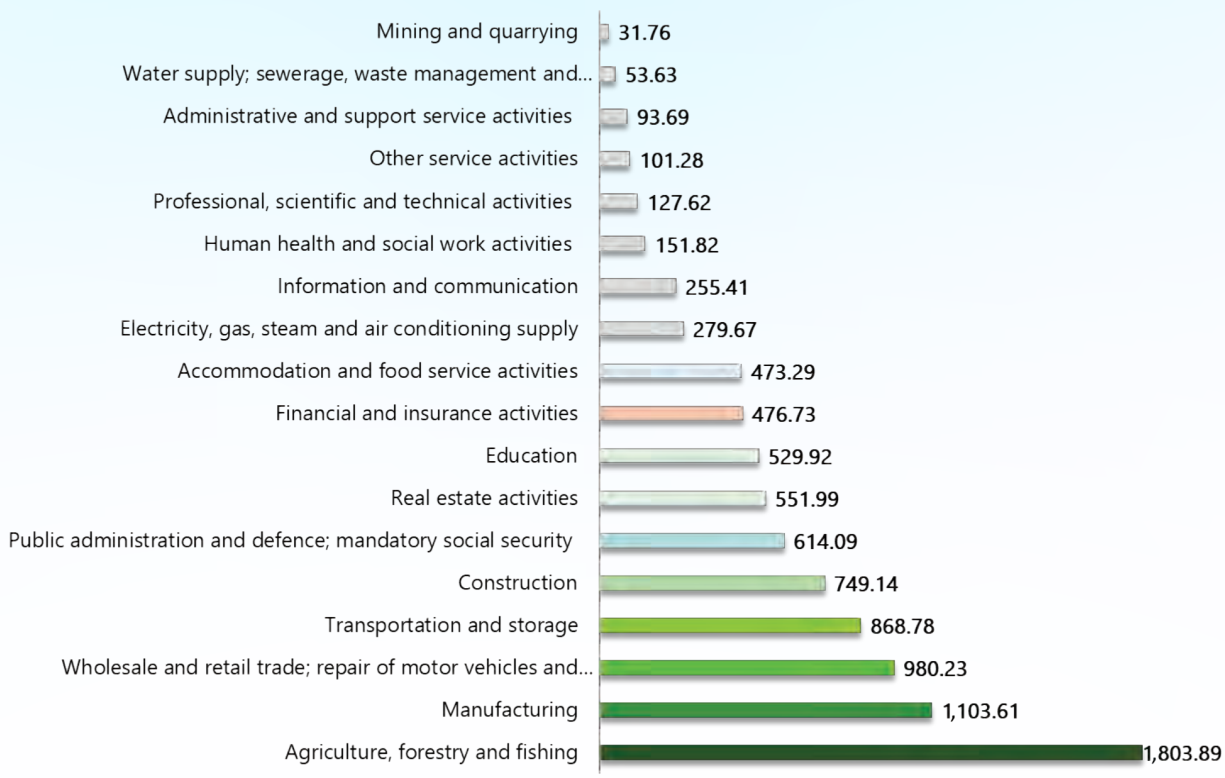

Fig 4: Sector-wise Output by Industrial Division at Current Price

2.2 Crop Performance and Productivity Trends

The keynote highlighted several important insights regarding the structural performance of Nepal's agricultural sector. Between FY 2015/16 and FY 2024/25, the total cultivated area under major food crops remained broadly unchanged at around 3.31 million hectares. **The analysis indicates that while the cultivated area under paddy and maize has increased, the area allocated to buckwheat, barley, and millet has declined.** Despite this, total production increased substantially from approximately 8.61 million metric tons to 11.59 million metric tons, leading to an improvement in overall productivity from 2.61 to 3.51 metric tons per hectare. This indicates that growth in agricultural output has been driven primarily by yield improvements rather than land expansion.

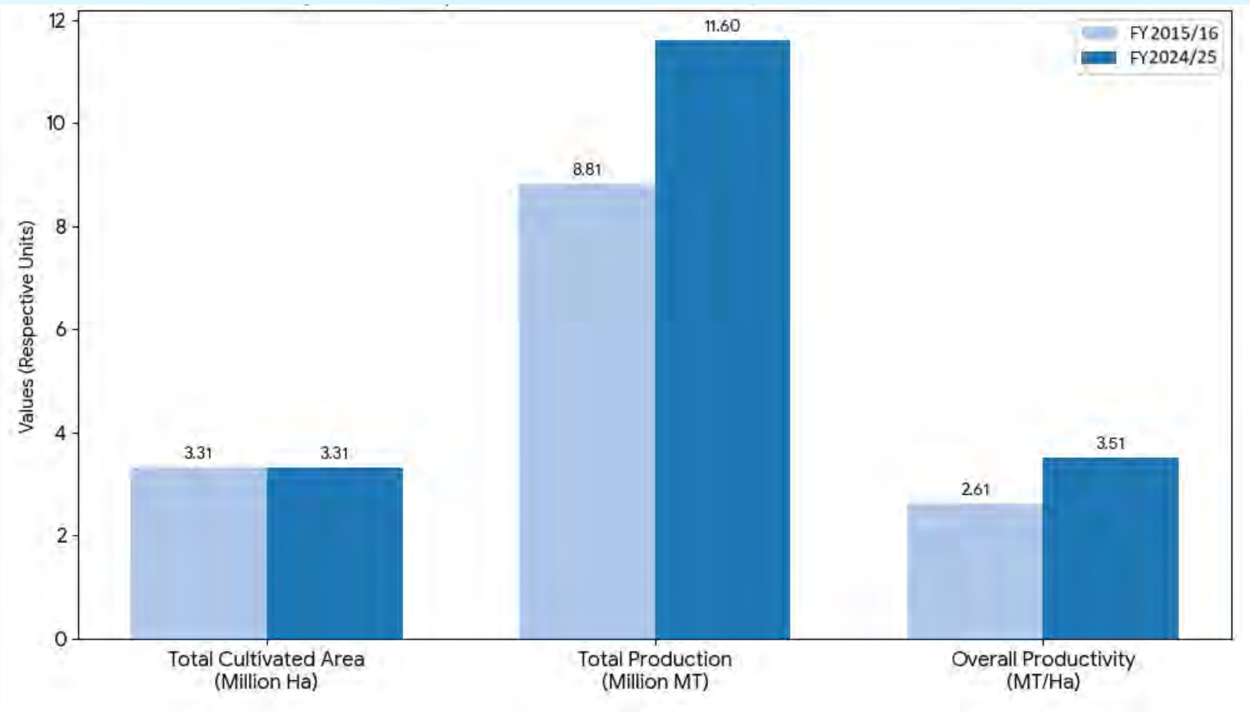

Fig 5: Major Food Crops: Structural Performance

Paddy and maize continued to dominate food grain production, with both crops recording increases in cultivated area, production, and productivity. Paddy production rose strongly due to notable yield improvements, while maize gains were largely driven by higher productivity. Wheat displayed a different trend, as cultivated area declined but production increased due to significant yield gains. Minor crops such as millet, buckwheat, and barley experienced stagnation or reductions in cultivated area; however, productivity improvements helped maintain or slightly increase overall production levels. These trends collectively suggest consistent productivity improvements across major food crops despite the limited availability of cultivable land.

The keynote also examined performance across cash crops between FY 2015/16 and FY 2024/25. Overall productivity increased from 6.50 to 8.30 metric tons per hectare, driven mainly by gains in potato and oilseed production. Potato productivity improved significantly due to both expansion in cultivated area and higher yields, while oilseed productivity increased gradually. Honey production also rose, supported by an increase in bee hives and improved productivity, reflecting stronger apiculture activities. In contrast, lentil production declined, while fruit and vegetable production increased significantly, indicating diversification toward higher-value crops. However, the expansion of land under cash crops may reduce the area available for staple crops such as paddy and wheat, given the fixed supply of cultivable land.

Average Agricultural Productivity Across Selected Asian Economies

In regional comparison, Nepal's agricultural productivity of approximately 3.7–3.8 metric tons per hectare(t/ha) places it in a moderate position. It performs better than India's national average of 2.8-3.0 t/ha and Bhutan (1.7 t/ha), is comparable to Pakistan (3.6 t/ha), but lags behind Bangladesh (4.0-4.8 t/ha), Sri Lanka(4.0-4.8 t/ha), and Vietnam (6.0-6.2 t/ha). While this suggests that Nepal's productivity performance is not weak by South Asian standards, it also highlights clear scope for improvement through modernization, improved irrigation, better input use, and enhanced farming technologies. China's average agricultural productivity, estimated at around 6.5–7.0 t/ha, further illustrates the scale of productivity gains achievable through sustained investment in irrigation, mechanization, improved seed varieties, extension services, and integrated value-chain development.

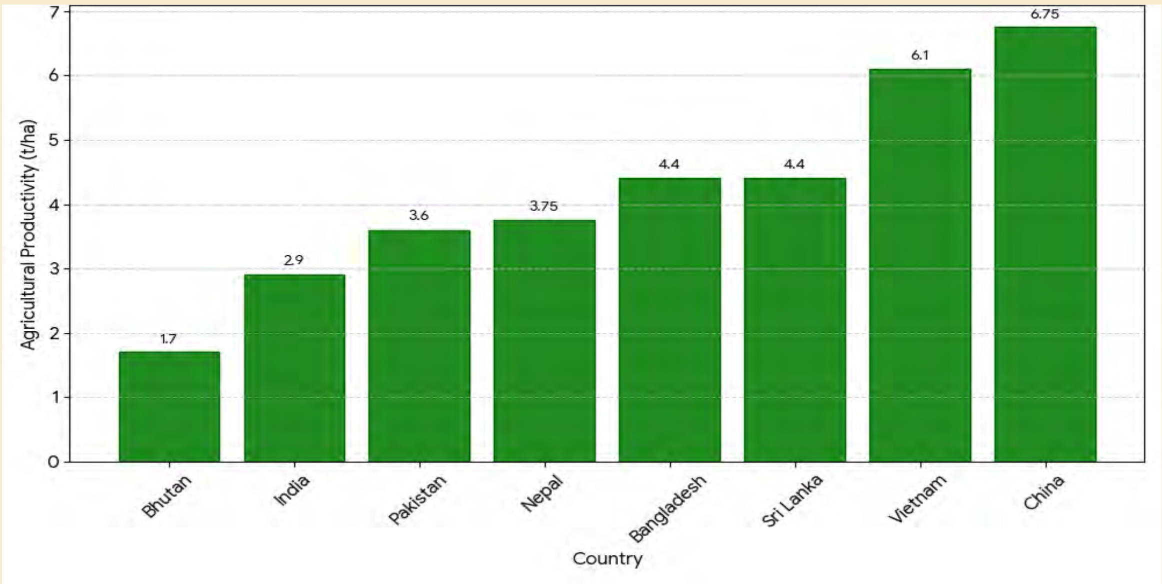

Fig 6 : Regional Comparison of Agricultural Productivity

Industrial crop performance between FY 2020/21 and FY 2024/25 showed mixed results. Total cultivated area and production declined slightly, indicating a contraction in the sector. Sugarcane remained the dominant industrial crop, though both area and production declined, while productivity improved marginally. Tea cultivation expanded in area and production, but productivity declined, suggesting expansion without proportional yield improvement. Jute remained relatively stable, while coffee showed notable expansion in area and production but a sharp decline in productivity, possibly reflecting immature plantations or inefficiencies. Cotton experienced substantial declines in area and production. Overall, the industrial crop sector reflects restructuring rather than growth, underscoring the need for productivity enhancement, technology adoption, and value-chain development.

Similarly, the spices sector experienced a slight contraction between FY 2020/21 and FY 2024/25, with marginal declines in area, production, and productivity. Ginger emerged as the strongest performer, while cardamom and garlic showed steady growth. Turmeric expanded in area and production but recorded a minor decline in productivity. Chilly cultivation declined sharply across all indicators, contributing significantly to the sector's overall downturn. These trends highlight uneven performance and emerging productivity challenges within the spices sector.

2.3 Agri-Finance, Credit, and Policy

The keynote emphasized that Nepal's agricultural sector is characterized by increasing land fragmentation, with average landholdings declining to around 0.55 hectares per household. This fragmentation limits mechanization, raises production costs, and constrains farmers' ability to invest in modern technologies and inputs.[10] Agriculture is dominated by owner-operated farms, accounting for about 82 percent of holdings, while formal land leasing and cooperative or contract farming remain limited in scale.[11] These structural features have important implications for agricultural productivity, commercialization, and access to finance. From a regulatory perspective, NRB has mandated a progressive increase in priority sector lending to agriculture over the next four fiscal years. Commercial Banks are required to increase agricultural lending from 12 percent of total loans in FY 2025/26 to at least 15 percent by FY 2027/28. Development Banks and Finance Companies face similar upward targets as part of a broader push to channel credit toward productive sectors.

The keynote also highlighted distinct credit risks associated with agricultural financing. Smallholder lending is constrained by small landholdings, weather-related risks, price volatility, and limited market access. Sharecropper lending faces additional risks due to tenure insecurity and lack of collateral. Cooperative-based lending involves governance and concentration risks, while corporate farming is exposed to market volatility and operational leverage.

NPR Bio

Fig 7: Status of Agriculture Credits of BFIs

[10]Central Bureau of Statistics, *National Sample Census of Agriculture Nepal 2021/22* (Kathmandu: CBS, 2023).
[11]Central Bureau of Statistics, *National Sample Census of Agriculture Nepal 2021/22.*

Despite steady growth in overall credit and increasing credit penetration relative to GDP, the agricultural sector remains underrepresented in total lending. While agricultural loans grew at a faster CAGR than total credit, their absolute share remains modest, supporting the rationale for regulatory intervention.

NPR Bio

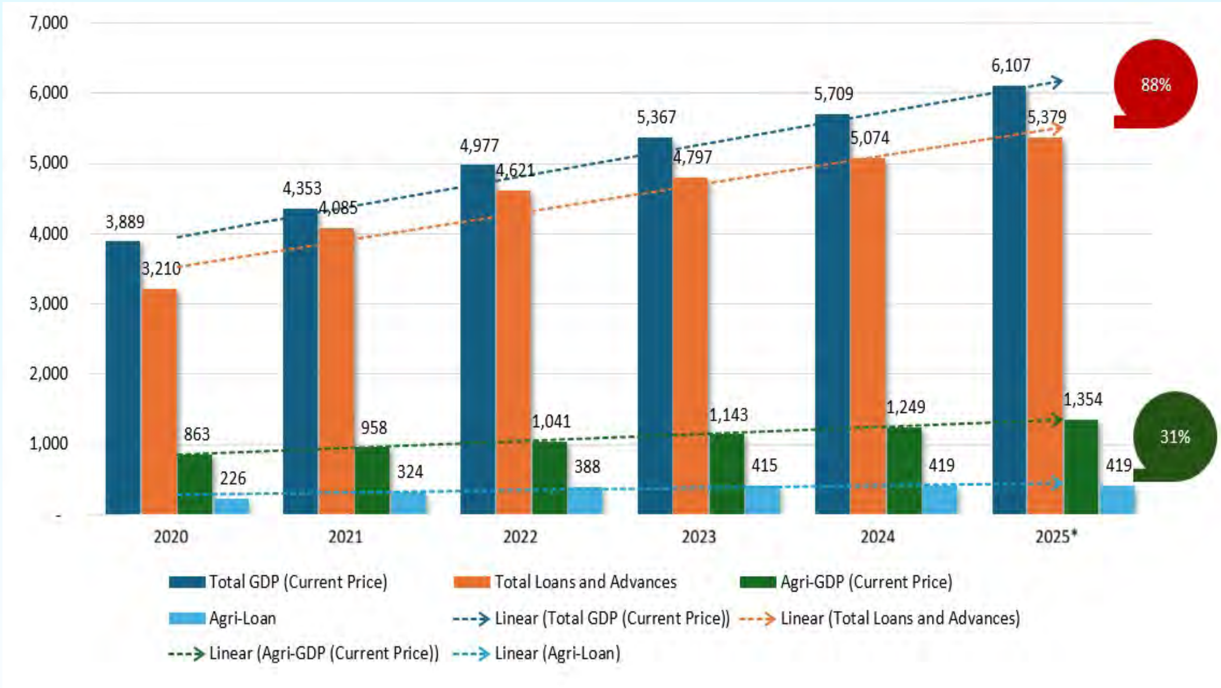

Fig 8 : GDP vs Loan[12]

Between FY 2015/16 and FY 2023/24, agricultural credit from BFIs increased significantly, though recent years show signs of stabilization, possibly due to rising non-performing assets and broader credit slowdown.

The broader opportunities and challenges were also a part of keynote presentation. Regulatory mandates, while necessary, may constrain innovation if overly rigid. Weaknesses in insurance, value chains, infrastructure, and farmer capacity elevate credit risk. International experience from India, Bangladesh, and Pakistan demonstrates that incentive-based regulatory mechanisms , such as tradable priority sector credits, lower provisioning requirements, and government risk-sharing schemes, can be more effective than penalty-driven approaches in promoting sustainable agricultural finance. The keynote concluded by outlining standard agricultural finance products across South Asia, ranging from crop production loans and mechanization finance to warehouse receipt financing, value-chain finance, digital lending, and credit-linked insurance, providing useful reference points for strengthening Nepal's agri-finance ecosystem.

[12]Ajay Shrestha, "Agri Financing Opportunities and Challenges," presentation at *Muktinath Agri Finance 360*, Kathmandu, January 2, 2026.

3. Institutional Context: Muktinath Bikas Bank Limited (MNBBL)

3.1 Institutional Overview and Strategic Positioning

MNBBL is a national-level development bank in Nepal that has entered its twentieth year of operations. It was established in 3rd January 2007 as a three-district development bank operating in Syangja, Kaski, and Tanahun districts of Gandaki Province. The institution was founded by a group of local private-sector visionaries with a clear mandate to expand access to formal financial services in underserved and rural areas. From its inception, MNBBL followed a locally rooted and community-oriented banking model, prioritizing outreach in areas traditionally excluded from the formal financial system. MNBBL expanded from a three district-level to a national-level institution by 2015, establishing branches across the country and relocating its central office to Kathmandu in 2016, while retaining a strong rural and inclusive focus.[13]

The historical evolution of banks in Nepal has largely followed a commercial banking pathway, with institutions subsequently expanding into agricultural and allied services. In contrast, MNBBL represents a distinct institutional model, having originated from small-scale community-based agricultural transactions and gradually expanded into commercial banking services. This agriculture-first trajectory differentiates MNBBL from most other banks and shapes its strategic positioning within the financial system. As of FY 2024/25, MNBBL serves more than 1.4 million customers through 179 outlets nationwide, supported by over 1,500 staff members. The bank manages a balance sheet exceeding NPR 136 billion, reflecting its position among the leading development banks in Nepal. **While MNBBL has diversified into a broad range of retail, MSME, and institutional banking services, its strategic identity continues to be shaped by its origins in micro, rural, and agriculture-linked financing.**[14]

3.2 Agricultural Finance Portfolio and Operating Approach

MNBBL views agriculture as a foundational sector for rural livelihoods, MSME development, and inclusive economic growth, particularly given Nepal's high dependence on agriculture for employment and income generation. MNBBL's exposure to agriculture is substantially broader when agri-related value-chain activities are considered as illustrated in below table 1.[15]

[13]Muktinath Bikas Bank Limited, *Annual Report 2024/25* (Kathmandu: MNBBL, 2024).
[14]Muktinath Bikas Bank Limited, *Annual Report 2024/25.*
[15]Muktinath Bikas Bank Limited, *Annual Report 2024/25.*

Sectors	Amount (NPR in 'Mio)
Agriculture and Forest Related	5,619.98
Fishery Related	45.34
Agriculture, Forestry & Beverage Production Related	1,111.51
Non-food Production Related	3,597.78
Loan to MFI & Cooperatives	1,891.74
Total	**12,266.35**

Table 1 : Composition of Portfolio in Agriculture, Allied Sectors and Lending to MFIs & Cooperatives [16]

In operational terms, MNBBL's agricultural lending is structured in alignment with prevailing prudential norms within Nepal's banking system, with appropriate emphasis on collateral and risk safeguards. Complementing this approach, the bank also extends group-based and cooperative-linked financing models to facilitate access for smallholders and underserved rural borrowers. This blended structure enables MNBBL to balance portfolio soundness with outreach objectives in diverse agricultural contexts. Agricultural lending activities are integrated within MNBBL's mainstream banking operations, supported by technical coordination and sectoral facilitation through its associate company, Muktinath Krishi Company Limited (MKCL). This model reflects an institutional choice to embed agricultural finance within the bank's broader development banking framework, while leveraging specialized ecosystem partners for non-financial and value-chain-related functions.[17]

3.3 Role in Advancing Inclusive and Sustainable Agri-Finance

MNBBL's agricultural finance is integrated into its inclusive banking framework, which includes micro banking, partnership banking, and wholesale lending. Through cooperatives and microfinance institutions, the bank extends services to smallholder farmers and rural households, supporting income-generating activities and rural enterprise development. This channel-based approach emphasizes collective, ecosystem-oriented mechanisms to achieve sustainable financial inclusion, particularly for women, youth, and smallholders.

A key feature of MNBBL's strategy is its associate company, Muktinath Krishi Company Limited (MKCL), which operates as a strategic ecosystem enabler. MKCL facilitates farmer engagement, technical coordination, aggregation, and market linkages through initiatives such as *Krishak Sanga Muktinath* and *Upabhokta Sanga Muktinath*, addressing structural gaps that credit alone cannot resolve. The bank also partners with development organizations, cooperatives, and international institutions to promote climate-smart and sustainable agriculture. These collaborations provide bundled financial and non-financial services and risk-management solutions, enhancing resilience among small farmers and aligning MNBBL's operations with broader sustainability and climate objectives.

[16] Muktinath Bikas Bank Limited, *Annual Report 2024/25.*
[17] Muktinath Bikas Bank Limited, *Annual Report 2024/25.*

4. Muktinath Agri Finance 360: Program Overview

4.1 Background, Vision, and Strategic Rationale

The decision to convene the Muktinath Agri Finance 360 program was driven by two key considerations. First, gaps and fragmentation within Nepal's agricultural ecosystem were affecting the effectiveness and quality of agricultural lending. Second, MNBBL's institutional roots and inclusive banking focus positioned it well to bring together regulators, policymakers, financial institutions, and private-sector stakeholders for structured dialogue. Through this initiative, MNBBL aims to contribute not only as a provider of finance but also as a facilitator of informed policy discussion and coordinated efforts to strengthen agricultural finance eco-systems.

4.2 Objectives and Expected Outcomes of the program

The objective of the Muktinath Agri Finance 360: Empowering Agriculture, Enabling Growth initiative is to promote result-oriented investment across Nepal's agricultural ecosystem through a comprehensive, ecosystem-wide approach. The initiative applies a 360-degree analytical perspective to identify key challenges and develop practical solutions through meaningful engagement with all relevant stakeholders. The program recognizes that agricultural financing should extend beyond primary production and include the entire value chain, such as processing, storage, logistics, market access, and allied services.

The initiative aims to promote result-oriented agricultural investment through a 360-degree, value-chain-based approach to developing the agricultural ecosystem, fostering collective solutions to policy and operational challenges by bringing together key public and private stakeholders to support inclusive and sustainable agri-finance.

The program brings together regulators, policymakers, agri-academicians, researchers, development agencies, market centers, farmers and associations, executives from BFIs, agricultural practioner/ farmers and private sector representatives on a common platform. This collective engagement supports the identification of policy, regulatory, and operational constraints, facilitates discussion on emerging opportunities, and helps build a shared understanding to strengthen inclusive, resilient, and sustainable agricultural finance.

5. Key Discussions and Session Highlights

5.1 Macroeconomic Context and Rationale for Agri Finance 360

(*Welcome Remarks by Mr.Umesh Kumar Acharya, Independent Director, MNBBL***)**

Mr. Acharya delivered the welcome remarks, highlighting the macroeconomic importance of Nepal's agricultural sector, which contributes approximately 24 percent of GDP and supports nearly 60 percent of the population.[18] He noted that Class A, B, and C financial institutions have extended around NPR 413 billion in credit to the core agriculture sector; however, the agricultural portfolio continues to record a relatively high NPA ratio of about 9 percent, indicating structural and operational challenges in agricultural financing. He further referred to the government's interest-subsidized lending program, under which 83,066 loans amounting to approximately NPR 124 billion had been disbursed by the end of November 2025, with NPR 39.27 billion provided as interest subsidies. These figures reflect the scale of public and private investment in the sector, alongside the need to enhance investment efficiency and outcomes.[19]

In this context, Mr. Acharya emphasized the objectives of the Muktinath Agri Finance 360: Empowering Agriculture, Enabling Growth initiative, which aims to promote result-oriented, value-chain-based agricultural investment through a 360-degree analytical approach. The initiative focuses on identifying policy, regulatory, and operational constraints and fostering coordinated solutions through structured engagement among regulators, financial institutions, and private sector stakeholders to support inclusive, resilient, and sustainable agricultural finance in Nepal.

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[18]Government of Nepal, Ministry of Finance, *Economic Survey 2023/24* (Kathmandu: Ministry of Finance, 2024).
[19]Government of Nepal, Ministry of Finance, *Status of Interest Subsidy on Subsidized Loans,* Kartik 2082 (Kathmandu: MoF, 2025).

5.2 Policy Perspectives on Agricultural Finance and Sector Transformation

(Address by the Chief Guest, Honorable Minister for Agriculture and Livestock Development, Dr. Madan Prasad Pariyar)

The Honorable Minister acknowledged his long-standing familiarity with the programs implemented by MNBBL, particularly its engagement with rural farmers. He recognized the bank's contribution to promoting financial inclusion and agricultural entrepreneurship and expressed his expectation that the bank would continue to play a significant role in advancing rural prosperity, financial inclusiveness, and agribusiness development in Nepal.

5.2.1 Key Structural Challenges in the Agricultural Sector

The Minister reflected on the reasons why the agricultural sector has not performed in line with national expectations and identified three major structural challenges apart from other usual challenges:

Structural Challenge	Remarks
Feminization of Agriculture	Agriculture in Nepal is increasingly managed by women, making it essential to redesign policies, investments, and technologies to be more women-friendly.
Youth Migration	Youth outmigration limits agricultural transformation, emphasizing the need to improve profitability, create employment, and position agriculture as a viable livelihood option.
Inclusivity Challenges	Inclusive schemes for marginalized and smallholder farmers are essential, with BFIs expected to actively promote participation and ensure meaningful development outcomes.

5.2.2 Access to Agricultural Finance and Institutional Constraints

The Minister recalled earlier discussions with MNBBL on Wholesale lending models involving cooperatives and smallholder farmers as a means to reduce credit processing period, transaction costs and extend credit access to poor farmers at their doorsteps. While acknowledging these initiatives as valuable pilots, he highlighted the ongoing challenge of scaling up such models nationwide. He noted that the Government of Nepal has introduced multiple policy measures to expand access to financial services in agriculture, including agricultural lending, crop and livestock insurance, and subsidy programs. However, despite these interventions, the sector continues to face low productivity and weak competitiveness.

Citing data from the National Sample Census of Agriculture Nepal 2021/22, the Minister stated that only around 12 percent of farming households have accessed agricultural loans, while an additional 34 percent report unmet demand for such credit. The Census further indicates that a significant proportion of farmers rely on informal sources of finance, reflecting persistent gaps in access to institutional agricultural lending, particularly for smallholder farmers. These findings suggest that existing government and BFI-led agricultural lending programs have not achieved their intended outreach and impact. The Minister identified several constraints contributing to this situation :

- *Procedural complexities in accessing agricultural loans;*
- *Impractical collateral requirements for smallholder and marginalized farmers;*
- *Limited willingness of BFIs to extend small-ticket agri loans;*
- *Reluctance by banks to accept agricultural projects as primary collateral;*
- *Preference for large borrowers to meet priority sector lending targets;*
- *Misutilization of loan by the borrowers;*
- *Low levels of financial literacy among borrowers.*

As a result, intended beneficiaries face limited access to credit and are often unable to achieve expected returns on their investments.

5.2.3 Recent Policy Reforms and Regulatory Flexibilities

The Minister highlighted recent policy initiatives aimed at addressing these challenges. He noted the issuance of the Interest Subsidy Procedures for Subsidized Loans, 2082, which provides a 3 percent interest subsidy on subsidized loans of up to NPR 50 million for agriculture, livestock, and other priority sectors to promote production, employment, and entrepreneurship. **The Minister stated that the agriculture policy has been presented to the cabinet & is in the process of approval. It is expected to sort out many issues raised here, like contract farming.** He further acknowledged regulatory flexibilities introduced by NRB, including:

- Simplified valuation requirements for smallholder-targeted loans (no external valuation required for loans up to NPR 1 million);
- Waiver of tax clearance certificates for loan renewals up to NPR 20 million;
- Flexibility in structuring loan repayments in line with agricultural production cycles, including deferment of pre-production installments;
- Reduced insurance premium requirements for NARC-recommended agricultural products.

5.2.4 Role of BFIs and Coordination Across Government Levels

To improve the effectiveness of agricultural lending, the Minister emphasized the importance of financial literacy programs delivered by BFIs in collaboration with agricultural experts. Such initiatives should support farmers in identifying viable investment areas, preparing sound business plans, and improving loan utilization. He stressed the need for stronger coordination between BFIs and agricultural programs implemented at the federal, provincial, and local government levels to ensure alignment and maximize impact.

The Minister welcomed dialogue and evidence-based recommendations from stakeholders to address challenges related to access to and utilization of agricultural finance. He expressed his expectation that the Agri Finance 360 platform would contribute to actionable policy inputs and institutional reforms aimed at strengthening agricultural financing systems.

Nepal's agricultural sector faces structural challenges, including feminization of farming, youth migration, and limited inclusivity, alongside low access to institutional finance due to procedural, collateral, and literacy barriers. Recent policy reforms and NRB flexibilities aim to expand credit, simplify lending, and promote risk mitigation through insurance and subsidies. Strengthening coordination among BFIs, government programs, and farmers, along with investments in technology, infrastructure, and market systems, is essential for building a commercially viable and sustainable agricultural ecosystem.

5.2.5. Toward a Stronger Agricultural Ecosystem

The Minister noted that increasing agricultural lending and improving its effective utilization are essential for sectoral growth, food security, and improved rural livelihoods. However, he emphasized that financial interventions alone are insufficient. A holistic strengthening of the agricultural ecosystem is required, including targeted investments in technology development and transfer, expansion and modernization of irrigation infrastructure, promotion of smallholder- and women-friendly mechanization, establishment of fair and stable pricing mechanisms, development of adequate storage and logistics infrastructure, and the strengthening of food safety and quality standards to enhance productivity, competitiveness, and market confidence across the agricultural value chain. He reiterated that agriculture must be developed as the backbone of the national economy through coordinated efforts across policy, finance, technology, and market systems.

In his concluding remarks, the Minister outlined a set of priority commitments and actions required to enhance the attractiveness, sustainability, and commercial viability of Nepal's agricultural sector:

- Institutionalizing credit guarantee mechanisms to better align agricultural financing with long-term sectoral strategies and to stimulate investment across agricultural production systems and value chains including arrangements to de-risk agricultural lending by BFIs.
- Strengthening farmers' access to modern technologies, quality seeds, fertilizers, and markets through coordinated collaboration among cooperatives, local governments, and the private sector.
- Ensuring that grants, subsidies, and technical services provided by local governments are better harmonized and strategically directed toward the same agricultural projects to maximize impact and avoid fragmentation.

- Supporting local governments in facilitating the production and commercialization of agricultural projects.
- Ensuring that the agriculture section at the local level delivers regular training and advisory services to build the technical and managerial capacity of farmers who access loans from BFIs.
- Establishing mechanisms to regularly update national agricultural statistics, including seasonal demand estimates and ward- and local-level supply data, on a frequent and systematic basis to support informed planning and market decisions, while enabling efficient management of both seasonal and off-season agricultural production.
- In the context of NRB's classification of agricultural finance as a priority sector, it further supports sectoral expansion by reducing risk weights applied to agricultural loans.
- Removing interest rate caps on agricultural lending and promoting risk-based interest rate pricing to better reflect underlying project risks and encourage responsible credit allocation.
- Excluding agricultural sector lending from spread rate calculations and adopting a more flexible and practical approach to loan loss provisioning to incentivize increased lending to the sector.
- Promoting the preparation of project feasibility studies and technical business plans through qualified agricultural specialists or specialized agribusiness service providers to improve project bankability.
- Establishing a policy framework under NRB to channel unconditional wholesale lending through capable and eligible cooperatives, thereby expanding financial access for smallholder and remote farmers.
- Expanding agricultural insurance coverage and strengthening it as a credible risk-mitigation instrument by introducing insurance products based on expected production or sales value, simplifying procedures, ensuring transparency, and expediting claims settlement to enhance farmer confidence.
- Emphasizing that platforms such as the Agri Finance 360 program are critical for building a shared understanding of existing challenges and opportunities in agricultural finance, and for fostering collective commitment among stakeholders to develop agriculture as a commercially viable sector, a source of youth employment, and a key pillar of the national economy.
- Concluding that Nepal's transition toward a self-reliant economy will require sustained coordination and collaboration among the Government, NRB, BFIs, the private sector, cooperatives, insurance providers, and farmers.

5.3 Institutional and Regulatory Insights from Key Stakeholders

5.3.1 Building a 360-Degree Agricultural Ecosystem: Lessons from Public Programs and Integrated Intermediary Models

(Remarks by Dr. Rajendra Prasad Mishra, Distinguished Guest, Secretary, Ministry of Agriculture and Livestock Development)

Dr. Mishra emphasized that despite sustained government efforts to transition the agricultural sector from a state-led model toward greater private sector participation, the sector remains fragmented and insufficiently organized as an integrated ecosystem. He noted that while deregulation has progressed, private sector engagement remains scattered, and access to finance, particularly for smallholder farmers, has become increasingly complex due to structural gaps across the value chain.

Drawing on the experience of the government's "***Krishi Aadhunikikaran Aayojana***", Dr. Mishra observed that the program was initially designed as a multi-stakeholder ecosystem, integrating finance, market development, input supply, processing, technical assistance, and public investment in infrastructure. Over time, however, private sector participation in financing, marketing, and input supply diminished, resulting in an implementation model largely driven by the government alone. He stressed that such an approach is insufficient to address systemic challenges in agricultural development and underscored the need for full, 360-degree stakeholder engagement to build a functional agricultural ecosystem.

He highlighted the **structural mismatch between agricultural production cycles and conventional loan repayment schedules.** He cited the example of perennial crop farmers, such as lemon growers, who are required to service loans long before production begins. He further noted that even after harvest, the absence of essential infrastructure such as cold storage and warehousing often leads to post-harvest losses and income instability. These issues reflect broader weaknesses in ecosystem coordination rather than isolated project failures.

Dr. Mishra also addressed the role of intermediaries in agricultural markets, noting that policy and public discourse have often portrayed intermediaries negatively. He argued that intermediaries are critical market-linking agents that facilitate aggregation, price discovery, logistics, and risk absorption. The negative narrative about such intermediaries has weakened market functioning and contributed to fragmented, siloed interventions that have weakened the Agri ecosystem. He emphasized that partial or patch-based solutions cannot deliver sustainable outcomes, reinforcing the need for a holistic, 360-degree ecosystem-based approach.

In this context, he commended the Muktinath Agri Finance 360 initiative and the establishment of Muktinath Krishi Company Limited (MKCL) as a timely and necessary intervention to address ecosystem gaps. He highlighted the role of MKCL as an integrated intermediary capable of supporting farmers across the value chain, including technical assistance, credit facilitation, infrastructure coordination, production planning, and market linkage, in close collaboration with the government. He noted that such company-led ecosystem models are essential to complement public efforts and translate policy objectives into effective outcomes on the ground. He emphasized that the long-term stabilization of Nepal's agricultural ecosystem will require the scaling of such models. He expressed the view that the emergence of multiple entities similar to MKCL would significantly strengthen ecosystem coordination and resilience. He noted that earlier efforts to deliver integrated services through cooperatives yielded limited results, suggesting that professionally managed company-based models are better suited to deliver 360-degree solutions at scale.

- *Nepal's agricultural sector remains fragmented, despite deregulation and policy reforms.*
- *Credit-only and government-driven approaches have proven insufficient for systemic transformation.*
- *Mismatches between production cycles and loan structures, and weak post-harvest infrastructure, raise risk and income instability.*
- *Intermediaries are essential ecosystem actors, not distortions, enabling aggregation, price discovery, and risk absorption.*
- *Company-led, professionally managed models (e.g., MNBBL–MKCL) are more effective than cooperative-only approaches.*
- *A 360-degree ecosystem approach, as seen in the poultry sector, is critical for productivity, diversification, and commercialization.*

He further cited the poultry sector as an example of a relatively well-functioning agricultural ecosystem, where integrated service provision, including inputs, veterinary services, finance, and market access, has enabled productivity and commercialization. He noted that similar ecosystem structures are largely absent in other subsectors, including fruits, vegetables, and livestock.

Concluding his remarks, Dr. Mishra underscored that agricultural growth in Nepal must be driven both by crop diversification and productivity enhancement, supported by integrated ecosystem development. He encouraged other financial institutions to adopt approaches similar to MNBBL's model and proposed that banks consider establishing dedicated agricultural subsidiaries to support value-chain-based financing. He also called on the Central Bank to facilitate such institutional innovations. He emphasized that a 360-degree ecosystem approach represents the most viable pathway for agricultural transformation in Nepal, drawing on international experience from China, India, and Pakistan. Finally, he wished that the Muktinath Agri Finance 360 initiative would serve as a catalytic and historic step in the Agriculture transformation in Nepal.

5.3.2 Clarifying Agricultural Finance Policies and Strengthening Ecosystem Coordination

(Remarks by Mr. Guru Prasad Paudel, Distinguished Guest, Spokesperson and Executive Director, Nepal Rastra Bank)

Mr. Paudel highlighted prevalent misconceptions among farmers, private sector stakeholders, and even BFIs regarding loan financing for perennial crops such as lemon. **He clarified that there is a common misunderstanding that farmers are not required to pay interest on loans until commercial production begins**. In reality, interest accrued during the pre-production period is capitalized, and the total capitalized loan amount is then structured into installments based on the agreed repayment period and tenure. Mr. Paudel emphasized that NRB has not waived interest during the pre-production phase; rather, interest payments are deferred.

He further noted that despite the existence of three tiers of government, federal, provincial, and local, there remains a weak linkage between BFI lending programs, such as subsidized loans, and local government systems. **Local governments often lack data on the number of smallholder farmers in their jurisdictions who have accessed subsidized agricultural loans.** This gap underscores the need for stronger coordination with local governments. He emphasized that financial literacy programs should be implemented through coordinated efforts among banks, BFIs, the central bank, FNCCI, private sector entities, local governments, insurance companies, and other relevant stakeholders to foster an integrated agricultural finance ecosystem.

- *Pre-production loan interest is deferred, not waived, and capitalized into repayment installments.*
- *Strong coordination among BFIs, local governments, and stakeholders is essential for effective agri-finance.*
- *NRB has suggested NARC to develop and publish district-wise crop rosters on its website to guide farmers and facilitate targeted bank financing.*
- *Sustainable agriculture requires a 360-degree ecosystem: inputs, technology, extension, insurance, market access, and logistics.*

Mr. Paudel also highlighted NRB's policy provision that subsidized agricultural loans be extended for products recommended by the Nepal Agricultural Research Council (NARC). NRB has suggested that NARC develop a district-wise roster of feasible agricultural products on its website, which can be accessible to farmers with one click, and this could be supported through the Corporate Social Responsibility (CSR) initiatives of BFIs. Such a website roster would enable farmers to identify viable crops in their respective districts and approach banks for financing accordingly. In turn, banks would be better positioned to finance these recommended products, thereby strengthening the overall agricultural ecosystem. **He noted that this approach aligns with the concept of a "360-degree ecosystem" referenced by MNBBL.**

Mr. Paudel further emphasized that financing alone is not sufficient for successful agricultural development. He explained that for agricultural produce to grow and reach consumers, multiple interrelated elements are required, of which financing is only one component. Therefore, **the entire ecosystem, including inputs, technology, extension services, insurance, market access, logistics, and policy support, must be developed in an integrated manner to achieve sustainable agricultural growth.** Finally, Mr. Paudel stressed that discussions and fact-finding exercises conducted during these programs are only effective when they are systematically documented and translated into specific, actionable recommendations for NRB, insurance companies, MoALD, and other relevant institutions.

5.3.3 Supervisory Perspectives on Priority Sector Lending and Loan Utilization

(Remarks by Mr. Vishrut Thapa, Distinguished Guest, Executive Director, Financial Institutions Supervision Department, Nepal Rastra Bank)

Mr. Thapa emphasized that while NRB is sensitive to the priority sector lending in the agriculture sector, **attention must also be given to the effective utilization of these loans**. He noted that progress should not be measured solely by the fulfillment of regulatory requirements regarding priority sector lending, but also by how productively the funds are utilized and their impact on the agricultural sector. Further, he emphasized the role of various stakeholders in driving progress highlighting that it is not the lenders alone who make this possible. He further stressed that a sustainable agricultural ecosystem does not develop automatically and requires coordinated, integrated efforts among regulators, BFIs, and other key stakeholders.

5.4 Panel Discussion: How Can Nepal Thrive in Agri-MSME Lending?

The panel discussion, moderated by Mr. Bhuvan Kumar Dahal (Banking Expert), brought together perspectives from the regulator, Agriculture Development Bank (ADBL), FNCCI, and a practicing farmer cum agri-entrepreneur.

5.4.1 Structural Context: High Dependence and Low Productivity

Opening the discussion, Mr. Bhuvan Kumar Dahal underscored a persistent structural imbalance in Nepal's agricultural economy. While the National Agriculture Census 2021/22 indicates that approximately 61 percent[20] of the population depends on agriculture and the National Population and Housing Census 2021 places this figure at around 57.3 percent[21], the sector contributes only about 22.1 percent to national GDP. This gap reflects low productivity, limited commercialization, and weak value addition across agricultural activities.

Mr. Dahal emphasized that agricultural finance in Nepal remains overly concentrated at the production stage. He argued that sustainable transformation of the sector requires financing across the entire agricultural value chain, including input supply, production, processing, storage, and marketing. Current lending volumes illustrate this imbalance: core agricultural lending stands at approximately NPR 419 billion, while total agri-lending, including value-chain financing, is estimated at around NPR 600-700 billion. The relatively small difference indicates limited penetration of downstream activities such as storage, processing, and market linkage financing.

> *"Agricultural finance remains overly concentrated at the production stage; sustainable transformation requires financing across the entire value chain- input supply, production, processing, storage, and marketing."*
>
> *- Bhuvan Kumar Dahal, Banking Expert*

5.4.2 Farmer-Level Access Constraints and Implementation Gaps

Responding to concerns about limited access to agricultural credit, Mrs. Bimala Acharya Dahal highlighted that while agricultural finance policies appear robust on paper, their implementation remains weak. Drawing on over 15 years of experience as a farmer and agri-entrepreneur, she noted that extensive procedural requirements, documentation burdens, and limited facilitation by banks discourage genuine farmers from seeking formal credit. She further emphasized structural constraints affecting farmer bankability. Farmers generally lack price-setting power, as agricultural prices are largely determined by traders, resulting in persistently low and volatile incomes.

> *"Production capacity, irrigation, and land productivity should carry greater weight than motorable road access in credit appraisal, particularly for small and medium loans."*
>
> *-Bimala Acharya Dahal, Farmer and Agri-Entrepreneur*

In addition, many individuals who own land do not engage in agriculture, while others who engage in agriculture do not have formal land ownership. These realities complicate collateral valuation and reduce effective access to finance. Mrs. Dahal also questioned the continued

20 Central Bureau of Statistics, National Sample Census of Agriculture Nepal 2021/22 (2078) (Kathmandu: CBS, 2023).
21 Central Bureau of Statistics, National Population and Housing Census 2021 (Kathmandu: CBS, 2022).

emphasis on motorable road access as a proxy for collateral quality, arguing that production capacity, irrigation availability, land productivity, etc., should carry greater weight in credit appraisal, particularly for small and medium-sized agricultural loans.

5.4.3 Banking Risk, Collateral Bias, and Law-Enforcement Perceptions

From the banking perspective, Mr. Govinda Gurung, CEO of ADBL, emphasized that since banks are custodians of public deposits and must repay the public deposits at any cost, they must prioritize loan recovery and repayment assurance from the borrower too. Cash-flow analysis remains the primary criterion in lending decisions, with collateral obviously serving as a last-resort risk-mitigation mechanism in the event of default.

However, Mr. Gurung noted that lending practices have become increasingly collateral-focused due to a misunderstanding among law enforcement and oversight agencies that unsecured or project-based lending constitutes a criminal offence. Lending without collateral is often treated as an offense, subjecting bank officials to scrutiny. This has reinforced conservative lending behavior, even in agriculture. He noted instances where loans amounting to NPR 4 billion were extended against collateral of only four bigha of land valued at approximately NPR 40 million. These cases illustrate that agricultural financing is sometimes provided to farmers or agribusinesses with strong project fundamentals under a project-based lending approach.

> *"Collateral-backed agricultural loans report NPL ratios of approximately 3–3.5 percent, whereas non-collateralized agricultural loans record NPL ratios of up to 8 percent."*
>
> *- Govinda Gurung, CEO, ADBL*

Although banks have expanded subsidized agricultural lending in line with government directives, such portfolios exhibit higher levels of NPLs compared to agricultural loans backed by collateral. Data cited during the discussion indicates that collateral-backed agricultural lending maintains relatively low NPL ratios of around 3-3.5 percent, compared to NPL ratios of up to 8 percent for non-collateralized agriculture loans. This divergence raises sustainability concerns for banks, particularly in the context of agri financing without collateral.

5.4.4 Loan Processing Delays and Borrower Preparedness

Addressing perceptions that agricultural loans take longer to disburse than housing or vehicle loans, Mr. Gurung clarified that such delays cannot be generalized. He noted cases where agricultural loans have been disbursed within three days, while some vehicle loans have taken several months. The timely disbursement depends primarily on borrower preparedness. Educated borrowers with complete documentation and credible business plans can receive loans within a day to a week. Conversely, delays arise when documentation is insufficient or when banks lack confidence in the borrower's repayment capacity.

5.4.5 NPL Dynamics, Smallholder Dominance, and Product Gaps

Providing a regulatory perspective, Mr. Ramu Paudel highlighted the structural drivers behind higher NPLs in agricultural lending. Nepal imports over NPR 200 billion worth of daily consumables annually, including more than NPR 45 billion in rice, NPR 38 billion in vegetables, NPR 21 billion in fruits, and NPR 19 billion in maize. Despite this import dependence, total

Panel Discussion

Moderator
Mr. Bhuvan Kumar Dahal, Banking Expert

Panelist
Mr. Govinda Gurung, CEO,
Agriculture Development Bank

Panelist
Mr. Ramu Paudel, Executive Director,
NRB, Banks and Financial Institutions
Regulation Department

Panelist
Mrs. Bimala Acharya Dahal, Farmer, Agri-
Entrepreneur, Himalayan Organic Garden

Panelist
Mr. DB Basnet, Chairperson,
Agro Enterprise Centre, FNCCI

agricultural lending has expanded rapidly, exceeding NPR 700 billion and increasing more than fivefold over the past decade.[22]

Mr. Paudel emphasized that Nepal's agricultural sector is dominated by smallholder farmers. Approximately 96 percent of borrowers have loan sizes below NPR 10 million, and about 33 percent of these borrowers have defaulted. SME and agricultural loans up to NPR 50 million exhibit NPL ratios of around 8–9 percent, largely reflecting weak repayment capacity rather than lack of demand.

> *"Mandatory priority sector lending alone is insufficient; incentive-based mechanisms such as capital relief or regulatory recognition can more effectively encourage quality agricultural lending."*
>
> *- Ramu Paudel, ED, NRB*

He noted that while stricter lending standards could reduce NPLs, they would also significantly reduce credit flow. He further observed that banks have not sufficiently innovated products tailored to different crops and production cycles, despite NRB's flexible regulatory provisions, such as balloon repayments aligned with cash flows.

Mr. Paudel highlighted several regulatory flexibilities introduced by NRB, including balloon repayment schedules, internal valuation of collateral for loans up to NPR 1 million, and provisions allowing lending up to NPR 2 million in non-motorable areas where productive agricultural activity exists. However, he acknowledged that many BFIs remain reluctant to fully utilize these flexibilities, often initiating monthly repayment immediately rather than aligning installments with production cycles.

This gap between regulatory intent and operational practice was echoed by Mrs. Bimala Acharya Dahal, who noted that farmers have yet to meaningfully experience the benefits of non-motorable land provisions, as banks continue to insist on road access in practice.

5.4.6 Ecosystem Failures, Policy Fragmentation, and Data Gaps

From the private sector perspective, Mr. D.B. Basnet emphasized that agricultural finance constraints are symptomatic of broader ecosystem failures. He noted that while policies exist in paper for subsidies such as 50 percent electricity subsidies for farmers, cold storage operators, and dairy producers, etc, budgetary allocations are insufficient, rendering these policies completely ineffective.

Similarly, agricultural insurance uptake remains low due to delayed or unavailable premium subsidies and reluctance among insurance companies. Mr. Basnet stressed the need for coordinated action among NRB, line ministries, BFIs, insurers, and FNCCI to resolve these systemic issues.

[22]Government of Nepal, Ministry of Finance, *Foreign Trade Statistics 2023/24* (Kathmandu: Department of Customs, 2024).

"Farmers, cold storage operators, and dairy producers complained they did not receive 50% electricity subsidies, even though the Nepal Government passed policies that exist on paper, due to insufficient budget allocations and operational hurdles."

- D.B. Basnet, Chairperson, Agro Enterprise Centre, FNCCI

He further highlighted the absence of updated agricultural and contract farming legislation over the past decade as a binding constraint to large-scale commercialization. Export-oriented products such as tea, honey, coffee etc. face additional challenges due to the lack of accredited laboratories for mandatory testing, despite repeated budget requests. A large portion of the agricultural budget, estimated at 60 to 80 percent, continues to be allocated to chemical fertilizers, reflecting deeper structural distortions.

Concerns were also raised by Mr. Bhuvan Kumar Dahal regarding inconsistencies in official agricultural credit data across ministries, NRB, banks, and MFIs. Discrepancies in reported borrower numbers and loan volumes undermine evidence-based policymaking, seeking calls for coordinated data reconciliation.

5.4.7 Incentives, Institutional Lending, and Forward Pathways

The panel broadly agreed that mandatory priority sector lending alone is insufficient to expand sustainable agricultural finance. Mr. Paudel noted that incentive-based mechanisms, such as capital relief or regulatory recognition, could more effectively encourage banks to expand quality agricultural lending. NRB indicated openness to revising policies based on feedback from the program.

Drawing on ADBL's experience, Mr. Gurung clarified that agricultural loans at ADBL are not used for land purchases. He emphasized that agricultural lending is viable and profitable only when linked to production on owned or leased land. He highlighted the high return potential in agriculture, noting cases where modest working capital investments of NPR 300,000–400,000 in organic farming have generated returns three to four times higher.

"Investment in agriculture can yield returns up to 300 - 400%, a rare opportunity in other sectors, but only when lending is linked to production on owned or leased land and not for land purchases"

- Govinda Gurung, CEO, ADBL

Mr. Gurung emphasized that financing alone is not sufficient to support agricultural development. He stated that complementary investments in irrigation, quality seeds, fertilizers, mechanization, commercialization, market access, and asset creation are equally important. He observed that although urban consumers are willing to pay premium prices for agricultural products, farmers often do not receive even minimum prices, indicating weak and inefficient market linkages. To address capacity gaps among farmers, Mr. Gurung explained that **ADBL is developing simplified planning tools, including a "One-Minute Business Plan."** This tool requires farmers to answer six basic questions, such as: What activity will I undertake? What type of shed or infrastructure will I construct? Where will the agricultural activity be located? Based on the information provided, the tool enables farmers to estimate the total investment required for infrastructure (such as sheds), inputs like seeds and livestock, projected cash flows from product sales, market access requirements, loan repayment schedules, and their overall capacity to service the loan. **This approach could effectively address the "One-page loan application for farmers" that Mr. Basnet had demanded earlier.**

Concluding the discussion, Mr. Basnet stressed that promoting smallholders must go hand in hand with supporting larger institutional farmers and agri-enterprises capable of anchoring value chains. He cited **warehousing infrastructure** as a priority area, suggesting public-private models where the government reimburses a portion of construction costs to crowd in private investment.

> *"On one hand, branch managers say they are unable to meet their loan targets despite sitting on piles of cash. On the other hand, farmers say they are not getting loans from banks. So where exactly is the gap?"*
>
> *-Bhuvan Kumar Dahal, Banking Expert*

Mr. Dahal concluded the session with a sharp reality check: "When banks are sitting on piles of cash while farmers struggle to access credit, the issue is not liquidity but coordination." He emphasized that this gap can only be bridged through stronger alignment among BFIs, FNCCI, NRB, MoALD, and the broader agricultural ecosystem.

6. Key Takeaways from the Agri Finance 360 Program

(Summary insights by the CEO of MNBBL, backed by supporting studies, drawing on the keynote address, panel discussions, and remarks by the Chief Guest and Distinguished Guests)

The synthesis draws on insights articulated by the CEO of MNBBL during the keynote address, panel discussions, and remarks by the Chief Guest and Distinguished Guests, reflecting a system-level assessment of agricultural finance in Nepal. Discussions highlighted that agricultural finance in Nepal is shaped by a combination of structural and institutional constraints, alongside significant untapped opportunities. While existing weaknesses continue to affect the quality, scale, and sustainability of agricultural lending, an ecosystem-based and value-chain-oriented approach was identified as a viable pathway to address these challenges. The key constraints and opportunities identified during the discussions are summarized below.

Key Constraints	Key opportunities
➢ High risk exposure and weak credit quality in agricultural lending ➢ Insufficient productivity growth requires significantly greater investment and effort ➢ Inadequate institutional structures to support value-chain-based financing ➢ Increasing dependence on imports despite domestic production opportunities and potential ➢ Limited interest of BFIs in agriculture, compounded by challenges related to collateral availability and guarantee mechanisms	➢ Strong potential for the development and expansion of value-chain financing approaches ➢ Opportunities to enhance productivity and capacity through digital financial services and agri-technology ➢ Expansion of rural financial access through cooperatives, microfinance institutions, development banks, and the wider banking system ➢ Significant scope for risk reduction through stronger agricultural insurance and credit guarantee institutions ➢ Broad opportunities to enhance collaboration among government agencies, NGOs, private sector actors, farmers, agricultural entrepreneurs, and BFIs

A growing body of research corroborates the above assessment that agricultural finance in Nepal continues to be constrained by systemic risk, collateral limitations, and weak institutional support structures. Empirical evidence shows that formal agricultural lending is hindered by high collateral requirements, limited agricultural insurance availability, and weak credit guarantee mechanisms, which collectively restrict access for farmers and agri-entrepreneurs[23]. This aligns with the observation that BFIs demonstrate limited appetite for agricultural lending due to high perceived risk and uncertain loan recovery conditions. These dynamics are compounded by Nepal's growing reliance on imports of key agricultural commodities, reflecting unmet domestic demand and undercapitalized value chains.

The CEO's emphasis on inadequate institutional arrangements and fragmented value chains also aligns with regional research on agricultural value chain financing (VCF). Studies in South Asia demonstrate that VCF models improve repayment performance, strengthen producer–buyer linkages, and reduce information asymmetry by embedding finance within contractual and market relationships[24]. Systematic reviews further highlight that VCF can expand credit access, enhance productivity, and reduce lender risk through instruments such as contract farming, warehouse receipt systems, and buyer-led financing[25]. Strengthening financing mechanisms in this way directly addresses the productivity gap by enabling targeted investment, which, when combined with digital financial services, can enhance efficiency and scale across agricultural value chains.

The event's insights on the potential role of risk-mitigation tools, including agricultural insurance and credit guarantee, are likewise supported in development finance literature. Feasibility studies for Nepal show that well-designed crop and livestock insurance products reduce default risk, stabilize farmer incomes, and crowd-in bank lending[26]. The CEO's remarks regarding the need for greater institutional collaboration across government, private sector, and development sectors are consistent with global recommendations that effective agricultural finance systems require multi-stakeholder coordination to address risk, productivity, and market access barriers.

Building on these insights, the CEO emphasized the need for a coherent and coordinated reform agenda to unlock the full potential of agricultural finance in Nepal. He underscored that progress will require a balanced approach that simultaneously strengthens financial literacy, agricultural capacity, and the enabling policy and regulatory framework, while aligning agricultural finance with long-term national development priorities. Key recommendations highlighted the importance of sustaining agriculture's status as a priority sector, introducing targeted regulatory and policy incentives to encourage greater BFI participation, and crowding in private sector investment. The CEO also stressed the need to rationalize subsidies by focusing on priority products, expand support for agricultural entrepreneurs through grants and concessional finance, and clearly delineate roles across federal, provincial, and local governments to improve coordination, scale successful farming models, and strengthen the overall institutional foundation of the agricultural ecosystem.

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Agricultural Ecosystem

Institutions Enabling Sustainable Growth

•Policy • Finance • Risk Mitigation •Inputs •Markets • Knowledge

7. Strategic Recommendations and Way Forward

All policy, regulatory, institutional, and operational recommendations that emerged during the Muktinath Agri Finance 360 program, drawing from keynote presentations, ministerial commitments, regulatory perspectives, panel discussions, CEO's synthesis, contextual analysis and other relevant recommendations, are structured below to support accountability and effective implementation.

7.1 Recommendations to the National Planning Commission

- Provide strategic leadership in formulating a **National Agri-Finance and Food Systems Financing Framework**, ensuring coherence between agricultural, financial sector, climate, and private sector development policies.

- Integrate **agri-finance reform priorities** explicitly into Nepal's periodic plans and medium-term expenditure frameworks, linking policy ambitions with realistic fiscal and institutional capacities.

- Establish and oversee a **whole-of-government coordination mechanism** on agri-finance, bringing together MoF, MoALD, NRB, provincial governments, and development partners to reduce policy fragmentation.

- Establish a **results-based monitoring and evaluation framework** for agricultural finance, with clearly defined indicators on productivity, inclusion, resilience, and fiscal effectiveness.

- Lead the development of a **national agricultural data and analytics architecture**, promoting interoperability across agricultural statistics, land records, climate data, financial sector information systems, and leverage of artificial intelligence (AI) in farming.

- Ensure that **public subsidies, subsidized loans, and guarantees** are aligned with national development priorities and assessed regularly for effectiveness, fiscal sustainability, and market impact.

7.2 Recommendations to the Ministry of Agriculture and Livestock Development

The program emphasized that financing alone cannot transform agriculture without strong policy alignment and ecosystem investment. MoALD is recommended to:

- **Establish a National Agriculture Regulatory Authority (***Krishi Pradhikaran***) as an apex statutory body** to license and regulate private agricultural companies, prevent unethical practices among private companies , ensure agricultural produce quality standards and coordinate across all levels of government, the private sector, and farmers.

- **Finalize and implement the revised agriculture policy**, particularly addressing gaps related to contract farming, model farming commercialization, and private sector participation.

- **Update and modernize agricultural and contract farming legislation**, which has remained largely unchanged for over a decade and constrains large-scale commercialization.

- Ensure **harmonization of grants, subsidies, technical services, and credit** across federal, provincial, and local governments so they support the same projects and value chains.

- **Rebalance agricultural budgets to reduce over-concentration on chemical fertilizers**, and redirect spending toward value-chain infrastructure, productivity enhancement, and commercialization-supportive investments.

- Prioritize investment in **storage, warehousing, cold chains, and logistics**, including PPP models.

- Support **local governments in facilitating commercialization**, not only production, including aggregation, processing, storage, and market linkage.

- Strengthen farmer access to **modern technologies, quality seeds, fertilizers, irrigation, and mechanization**, with a specific focus on Women-friendly technologies (recognizing feminization of agriculture) and Youth-oriented agri-entrepreneurship opportunities

- Establish mechanisms to **regularly update agricultural statistics**, including ward- and local-level production, supply, and seasonal demand data.

- Rationalize agricultural subsidies by targeting a **limited set of priority commodities aligned with the agro-ecological and market potential of each region or locality**, rather than applying broad-based and fragmented subsidy schemes.

- Improve **mechanisms that help determine fair market prices** - such as transparent pricing systems, buyback mechanism and introduce efffective Minimum Support Price (MSP) frameworks to reduce farmers' exposure to price volatility and encourage commercial-scale production.

- Address gaps in **testing and certification laboratories** required for export-oriented products such as tea, honey, coffee, etc.

- Design and implement youth empowerment programs that promote dignified self-employment opportunities within the agricultural sector.

- Strengthen and formalize informal agricultural markets to ensure product quality, integration into national data systems, and streamlined facilitation.

7.3 Recommendations to Nepal Rastra Bank

Discussions highlighted that while NRB has introduced several flexibilities for agricultural lending, gaps remain between regulatory intent and on-ground implementation. The following actions are recommended :

- Transition from a predominantly penalty-driven priority sector lending framework to a **balanced incentive-based approach, combining both "carrot and stick" mechanisms**, including capital relief, regulatory recognition, and differentiated prudential treatment for high-quality agricultural and value-chain lending.

- **Maintain agriculture as a priority sector on a sustained basis**, aligned with long-term national development strategies rather than short-term credit targets.

- **Reduce risk weights on agricultural loans**, particularly for production-linked, value-chain-based, and ecosystem-supported financing.

- **Adopt a more flexible and practical approach to loan loss provisioning** for agricultural loans, recognizing seasonal cash flows, biological cycles, and ecosystem-related risks.

- **Exclude agricultural lending from spread rate calculations and remove interest rate caps, allowing risk-based pricing** to avoid disincentivizing banks from expanding agricultural portfolios. NRB is suggested to update Working capital guidelines, Simplifly NTA verification and flexible provisioning reflecting agricultural inherent risks.

- **Initiate a coordinated CSR program, directing a certain percentage of CSR funds to organizations such as NBA, DBAN, NFIA, and NMBA** to strengthen agricultural finance and ecosystem support, with a focus on benefiting poor and marginalized households, in line with recent directives on poverty-focused CSR.

- **Institutionalize agricultural credit guarantee mechanisms** to de-risk lending for smallholders, Agri-MSMEs, and value-chain actors.

- Establish a **policy framework for unconditional wholesale lending/refinancing** through capable cooperatives to expand outreach to smallholder and remote farmers.

- Ensure **effective implementation of existing NRB flexibilities**, including balloon repayment and cash-flow-aligned installment structures, internal valuation of collateral for loans up to NPR 1 million, lending in non-motorable areas where productive activity exists, and deferment of pre-production repayments for perennial crops.

- Issue clear guidance about **legitimate use of regulatory flexibilities such as project financing without security is not misinterpreted as regulatory or legal violations** by law enforcement agencies.

- Strengthen **coordination with local governments,** so they have visibility on subsidized agricultural loans and beneficiaries.

- Cordinate to introduce **district-wise agricultural product rosters** by NARC in its website to guide bankable lending decisions.

- Encourage **institutional innovation**, including dedicated agri-finance subsidiaries by BFIs or ecosystem-based financing arms within BFIs.

- Introduce policy relaxations and targeted incentives to support investment facilities that directly enhance the production of agricultural products prioritized under the Nepal Trade Integration Strategy (NTIS) 2023.

7.4 Recommendations to BFIs

BFIs were identified as the primary agents for translating policy intent into effective outcomes. Recommended actions include:

- Shift from production-only lending toward **value-chain-based financing**, covering processing, storage, logistics, and marketing.

- **Align repayment schedules with agricultural cash flows**, fully utilizing balloon payments, grace periods, and seasonal installments.

- Develop **crop, commodity, and cycle-specific loan products** rather than applying uniform lending templates.

- Reduce excessive reliance on collateral-centric lending and **strengthen cash-flow and project-based appraisal.**

- Give greater weight to **productive capacity (irrigation, yield potential, market access)** rather than road access alone, especially for small and medium agri loans.

- Invest in **financial literacy and borrower preparedness**, including **simplified Loan processing tools** such as one-page or "one-minute" business plans.

- Strengthen **post-disbursement monitoring** to reduce misutilization of loan and improve credit quality.

- Build **internal technical capacity** in agri-economics, value-chain finance, and ecosystem risk assessment.

- Coordinate closely with **local governments, cooperatives, agribusinesses, and intermediaries** to reduce transaction costs, resource optimization and improve outreach.

- Actively use **insurance and guarantee instruments** as genuine risk-mitigation tools rather than compliance requirements.

7.5 Recommendation to Nepal Insurance Authority / Insurance companies/ Deposit and Credit Guarantee Fund

The strategic recommendations for the Nepal Insurance Authority (NIA), Insurance companies/ Deposit and Credit Guarantee Fund (DCGF) to strengthen the agricultural insurance ecosystem are as follows:

- **Expand agricultural insurance coverage beyond existing sectors** (e.g., poultry) to include a wider range of subsectors such as fruits, vegetables, and livestock, particularly where integrated ecosystem structures are currently lacking.

- Develop and implement insurance products for farmers that protect them based on **how much they are expected to produce or sell**, not just on the cost of seeds, fertilizer, or other inputs. This way, farmers get better coverage against risks.

- **Position insurance as a reliable tool to de-risk agricultural lending**, which will encourage BFIs to increase their investment in the sector.

- **Simplify the application and processing procedures for agricultural insurance** to make them more accessible and user-friendly for smallholder and marginalized farmers.

- **Establish mechanisms for the rapid and transparent settlement of claims** to build and maintain farmer confidence in the insurance system.

- Support the policy of providing **reduced insurance premium requirements for specified agricultural products** that are recommended by the Nepal Agricultural Research Council (NARC).

- Coordinate with the NRB and the Ministry of Agriculture to facilitate the creation of **specialized insurance structures or subsidiaries within BFIS** that support value-chain-based financing.

- Promote credit guarantee products to stimulate investment across agricultural production systems and value chains including arrangements to de-risk agricultural lent by BFIs.

- Develop **parametric and weather-based insurance products** that pays farmers automatically when measurable events occur, such as rainfall, temperature changes, or crop yields, allowing faster claims, lower costs, and better protection for smallholders.

7.6 Cross-Cutting / Other Recommendations

Several recommendations cut across institutions and require collective action:

- **Mobilize domestic long-term institutional capital** for agricultural infrastructure development, including investments from institutions such as the **Citizen Investment Trust,**

Provident Funds, and the **Social Security Fund**, to finance storage, cold chains, logistics, irrigation, and processing infrastructure through PPP and blended finance modalities, thereby reducing reliance on external borrowing. (MoF, NPC, MoALD)

- **Strengthen professional intermediaries** such as cooperatives, *krishi bikri kendra,* and agri-service providers as key links between farmers, markets, and finance, instead of treating them as regulatory hurdles. (MoALD, Provincial Governments)

- **Support private companies that provide integrated solutions** finance, technical guidance, aggregation, storage, and market access for farmers. (Private Sector, MoALD, NPC)

- **Scale proven structures** like poultry, clusters for fruits, vegetables, and high-value crops. (MoALD, Provincial Governments, Private Sector)

- **Partner with private firms** to invest in warehouses, cold storage, and transport; share costs to reduce investment risk. (MoALD, MoF, Private Sector)

- **Standardize agricultural credit, borrower, and outcome data** across NRB, ministries, banks, MFIs, and insurers. (NRB, MoALD, BFIs, MFIs, NIA)

- Leverage harmonized data for planning, monitoring, and adjusting programs effectively, leaving **no room for data errors** that could derail agricultural finance decisions. (NPC, MoALD)

- **Promote model farming and contract farming initiatives at the provincial level** to boost commercialization and linkages with markets. (Provincial Governments, MoALD, CNI, FNCCI)

- **Provide targeted grants, subsidized loans, or blended finance** to help farmers and agribusinesses improve storage, processing, market access, and exports. (MoALD, BFIs, Provincial Governments)

- **Work with municipalities** to provide technical support, small grants, or advisory services to smallholder farmers. (Local Governments)

- Use **Life Cycle Assessment (LCA) outputs to guide subsidies, insurance pricing, and blended finance** toward climate-resilient and low-impact production systems. (MoALD, NRB, NIA, BFIs)

8. Conclusion

The Muktinath Agri Finance 360 initiative reinforces a key finding of this report that the **constraints facing Nepal's agricultural sector are not primarily financial, but systemic.** While regulatory mandates and subsidized lending have expanded the volume of agricultural credit, these measures alone have not delivered sustained productivity growth, improved loan utilization, or resilient value chains. Persistent weaknesses in market access, risk mitigation, aggregation, infrastructure, and institutional coordination continue to limit the developmental impact of agricultural finance.

Discussions during the Agri Finance 360 program highlighted a structural disconnect between policy intent and actual outcomes. Agricultural lending remains heavily concentrated at the production purposes, while downstream segments like processing, storage, logistics, marketing etc. remain underfinanced. This imbalance has contributed to higher credit risk, elevated non-performing loans, and continued risk aversion among banks, despite the sector's significant potential for import substitution, value addition, and rural employment generation. The Agri Finance 360 program presents a pragmatic pathway to address these challenges by reframing agricultural finance as an ecosystem challenge rather than a compliance exercise. International experience and domestic evidence demonstrate that value-chain-based and incentive-aligned approaches are more effective than penalty-driven mandates in mobilizing sustainable private sector investment. Embedding credit within a broader ecosystem of insurance, technical assistance, aggregation mechanisms, market linkages, and reliable data systems is essential to improving both development impact and portfolio quality.

At a Glance: Key Conclusions

- Nepal's agricultural constraints are systemic, not credit-driven
- Production-focused lending without value-chain financing raises risk and NPLs.
- Ecosystem-based, incentive-aligned agri-finance is the sustainable pathway.
- Institutional innovation (e.g., MNBBL–MKCL) can de-risk agriculture.
- Coordinated action across regulators, governments, BFIs, insurers, and markets is essential.

MNBBL's institutional experience illustrates the role that financial institutions can play in this transition. Through its agriculture-first legacy, inclusive banking model, and the establishment of MKCL as an ecosystem facilitator, MNBBL demonstrates how banks can move beyond standalone lending toward coordinated, value-chain-oriented engagement. The Agri Finance 360 platform further underscores the importance of structured dialogue in aligning regulators, line ministries, academia, researcher, associations, market centers, financial institutions, insurers, private sector actors, and farmers around shared priorities. Looking ahead, the report's recommendations emphasize the need for coordinated and incentive-compatible action. Regulators are encouraged to complement priority sector mandates with risk-sharing instruments and differentiated treatment for quality agricultural lending. Line ministries and local governments must better align subsidies, infrastructure, and extension services with financial flows and value-chain strategies. Banks and insurers should deepen product innovation, fully utilize existing regulatory flexibilities, and strengthen cash-flow-based appraisal and risk management.

In conclusion, transforming agriculture into a commercially viable, inclusive, and resilient pillar of Nepal's economy will require a sustained shift from fragmented interventions toward integrated agri-finance ecosystems. Platforms such as Muktinath Agri Finance 360 provide a credible foundation for this transition by fostering institutional learning, policy alignment, and collective commitment. Scaling such approaches will be critical to translating agricultural finance into productivity gains, reduced import dependence, and long-term economic transformation.

Annex 1: Program Agenda

Date: Paush 18, 2082, Friday (2nd January, 2026), 1:00 PM onwards
Venue: Hotel Radisson, Lazimpat, Kathmandu

S. N.	Session / Activity	Key Details/Role
1	Registration	Participant registration
2	Opening Session and Chairing	Master of Ceremony: Mrs. Shivanee Thapa Program Chair: Mr. Khim Prakash Malla, Chairman, Board of Directors, Muktinath Bikas Bank Chief Guest: Hon. Dr. Madan Prasad Pariyar, Minister for Agriculture and Livestock Development **Distinguished Guests:** Dr. Rajendra Prasad Mishra (Secretary, MoALD) Mr. Ramu Paudel (ED, NRB) Mr. Vishrut Thapa (ED, NRB) Mr. Guru Prasad Paudel (ED & Spokesperson, NRB) **Chairing Members:** Board of Directors, Muktinath Bikas Bank and other distinguished personalities
3	National Anthem	All Attendees
4	Welcome Remarks	Mr. Umesh Kumar Acharya, Board of Directors, MNBBL
5	Inauguration	Formal inauguration by the Chief Guest
6	Keynote Presentation	**Topic:** Challenges and Opportunities in Agri-MSME Financing in Nepal **Speaker:** Mr. Ajay Shrestha, Banking Expert, Consultant, Former CEO, Bank of Kathmandu
7	Video Presentation	Farmers' Voice
8	Distinguished Guest's Remarks	Dr. Rajendra Prasad Mishra, Secretary, Ministry of Agriculture and Livestock Development
9	Chief Guest's Address	Hon. Minister for Agriculture and Livestock Development
10	Panel Discussion	**Topic:** How Can Nepal Thrive in Agri-MSME Lending?
11	Key Takeaways	Summary of keynote presentation and panel discussion by Mr. Pradyuman Pokharel, CEO, MNBBL
12	Distinguished Guest's Remarks	Regulatory perspectives by Mr. Guru Prasad Paudel, Executive Director & Spokesperson, Nepal Rastra Bank
13	Distinguished Guest's Remarks	Supervisory perspectives by Mr. Vishrut Thapa, Executive Director, Financial Institutions Supervision Department, Nepal Rastra Bank
14	Video Presentation	Impact of Cooperative Lending
15	Vote of Thanks & Closure	Mr. Khim Prakash Malla, Program Chair & Chairman, BOD, MNBBL
16	Hi-Tea & Networking	All Participants

Annex 2: List of Participants

Chief Guest and Distinguished Guests

Role	Participant
Chief Guest	Dr. Madan Prasad Pariyar, Honorable Minister for Agriculture and Livestock Development
Distinguished Guest	Dr. Rajendra Prasad Mishra, Secretary, Ministry of Agriculture and Livestock Development
Distinguished Guest	Mr. Ramu Paudel, Executive Director, Banks and Financial Institutions Regulation Department, Nepal Rastra Bank
Distinguished Guest	Mr. Vishrut Thapa, Executive Director, Financial Institutions Supervision Department, Nepal Rastra Bank
Distinguished Guest	Mr. Guru Prasad Paudel, Spokesperson and Executive Director, Nepal Rastra Bank

Panelists

Role	Participant
Moderator	Mr. Bhuvan Kumar Dahal, Banking Expert
Panelist	Mr. Ramu Paudel, Executive Director, Banks and Financial Institutions Regulation Department, Nepal Rastra Bank
Panelist	Mr. Govinda Gurung, CEO, Agriculture Development Bank
Panelist	Mr. DB Basnet, Chairperson, Agro Enterprise Centre, FNCCI
Panelist	Mrs. Bimala Acharya Dahal, Farmer, Agri-Entrepreneur, Himalayan Organic Garden

List of Other Participants

S.N.	Organization Type	No. of Participants	No. of Organizations	Female Participation
1	Government	28	15	5
2	Central Bank	5	1	2
3	Banks and Financial Institutions (BFIs)	153	32	25
4	Farmers	33	25	10
5	Association/Federation	9	6	3
6	Cooperative	5	4	3
7	Development agency	3	3	0
8	Insurance	2	2	0
9	Agriculture markets	4	3	1
10	Agri Enterprise	7	5	2
11	Agri Fin tech company	1	1	0
12	Academia, Consulting & Research Firm	7	6	2
13	Media	39	31	5
	Total Participants	**297**	**134**	**58**

Annex 3: Event Photographs


MUKTINATH AGRI FINANCE 360


MUKTINATH AGRI
FINANCE 360
An initiative of
मुक्तिनाथ विकास बैंक
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MUKTINATH AGRI FINANCE 360
Empowering Agriculture,
Enabling Growth.


MUKTINATH AGRI FINANCE 360

Thank You

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