
Paper for submission to the USAID Workshop to follow the International Food and Agribusiness Management Meeting in Chicago June, 27-30, 2005

Title: *Poverty Alleviation in Nepal through Market-led Agricultural Commercialization*

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Problem Statement

With more than 86 percent of Nepal's 24 million people living in rural areas and about two-thirds of the same directly deriving their livelihood from agriculture, Nepal's economic development is inconceivable without first achieving a significant growth in the agriculture sector. At the present stage of development where this sector is still largely subsistence based and contributes the largest share (about 40%) to the GDP, it has to serve as the engine of growth, paving the way for a rapid and overall sustainable economic transformation. For the foreseeable future no other sector can engage the large section of the population presently involved in agriculture. It is evident that agricultural development is a key to economic growth and reduction of poverty. In recognition of this, His Majesty's Government of Nepal, HMGN has accorded the highest priority to this sector and expressed its commitment to speed up the process of its transformation by declaring the Tenth and Eleventh Plan periods (2002 - 2012) as the Agriculture Decade. In recent years, agriculture has grown at approximately 3 percent, population at 2.3 percent and average economic growth at less than 5 percent. Irrigation is a critical input in the agricultural production system. In the same vein, forestry has a significant contribution in the livelihoods of people by providing multiple products and services. Besides fuelwood, timber and forage for livestock, forests are the source of valuable herbs and medicinal plants that provide incomes for the rural poor. Nepal's rich genetic and biological diversity in forests and agricultural lands across different agro-ecological regions represent yet another critical asset that needs to be properly managed for enhanced productivity gains and improved livelihood.

Agriculture development in Nepal presently faces the following problems:

- Inadequate investment in infrastructure and post-production value addition;
- Inadequate marketing services/information for agricultural produce;
- Uneconomical scale of commercial production;
- Competitive disadvantage due to subsidies in neighboring countries;
- Sub-optimal utilization of irrigation facilities;
- Non-optimal and unsustainable utilization of forest and pastureland;

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- Agricultural education not matched with farmers' needs, priorities and/or market demand;
 - Small and fragmented land holdings with high costs of production;
 - Subsistence farming with low productivity;
 - Limited targeting of disadvantaged groups;
 - Weak capacity for planning and policy analysis;
 - Inadequate development of quality control and regulatory mechanisms for seeds, fertilizer and food;
 - Weak linkages among agencies responsible for agricultural production, agro-industry, and trade;
 - Inadequate/weak participatory monitoring and evaluation systems;
 - Institutional set-up not capable of dealing with new challenges in commercialization and agribusiness promotion emerging from liberalized market economy and WTO membership.

Objectives

- Faster economic growth through increased productivity of productive resources;
- Poverty reduction and enhanced living standards as a result of faster growth and expanded employment opportunities;
- Growing commercialization and development of additional infrastructure in support of commodities and production systems of comparative advantage;
- Diversification in agriculture through the promotion of high-value commodities;
- Creation of a favorable environment for the participation of the private sector and farmers' groups; and
- Poverty reduction through increased productivity and employment opportunities.

Procedures

USAID/Nepal's Strategic Objective 1 (SO1), "Increased sustainable production and sales of forest and high-value agricultural products" which was initially planned for September 1995 to September 2002, has now been extended till September 2006. The Mission has recently revised and updated the SO1 to reflect the issues and concerns raised in the Mission Action Plan which was approved in December 2002. SO1 was redesigned to address the conflict and focus on income and employment generation while tightly integrating agriculture and forestry programs. This was based on the recognition that, due to widespread poverty and high population growth rates in the rural areas of Nepal, many farmers are forced to use ever more marginal lands. In addition to decreasing farm yields and incomes, such practice led to deforestation and soil erosion. Accelerating

agricultural growth was a key component of USAID's strategy for alleviating poverty and facilitating economic development in Nepal. The sustainable production and sales of forest and high-value agricultural products will be achieved by expanding market participation by farmers, traders and entrepreneurs, and promoting sustainable management of the productive resource base.

The production and sales of high-value forest and agricultural commodities is promoted through programs that expand market access within and outside of Nepal, and develop micro-enterprises in response to a proven market demand. The production of high-value commodities, such as off-season vegetables, is supported through increasing the use of micro-irrigation technology in order to extend the growing season in the Middle Hills region of Nepal. Rural enterprise development programs target members of forest, farmer marketing and irrigation groups. Activities such as the production, collection and marketing of non-timber forest products, and high-value crops are supported through facilitating savings and credit groups, sharing information about appropriate technologies for value-added processing, and by providing small-scale enterprise and business development services.

In order to increase rural incomes as well as enhance the delivery of Government of Nepal (GON) services, technical assistance will be provided to farmers through GON agricultural extension agents who have received intensive training and materials. Support for policy reform will include the provision of analysis and technical expertise to the GON on trade-related issues and negotiation training to address such critical issues as trade treaties and quarantine bottlenecks.

Activities under SO1 helped to increase agriculture and forest productivity by: 1) improving productivity by supporting local control over forest and water resources; 2) providing rural households with knowledge of new high value crop varieties and sustainable agriculture technologies; 3) helping farmers target production to take advantage of strong market demands; and 4) promoting adoption of improved marketing practices. SO1 also strengthened grassroots democracy by providing training and institutional development assistance to farmer and forest user groups. These groups provided practical experience with democratic procedures and valuable leadership opportunities for rural families with little previous exposure to democratic processes.

During the course of implementation several NGO and private sector groups worked in close collaboration with Government of Nepal line agencies to develop extensive networks of user groups in community forestry, irrigation and for agricultural production and marketing. In many cases, activities have

continued to be implemented in conflict-affected areas after direct implementation was withdrawn. Some of these activities have become sustainable based on commercial and market relationships established between user groups and entrepreneurs. This relationship has provided steady income growth. The SO approach of capacity building and linking rural groups to the larger market network for sustaining both the natural resource base and income derived from rural enterprises is important for improving rural livelihoods. Activities also improved nutrition, increased literacy and contributed toward the development of sound sectoral policies.

Present/ Ongoing Activities (2003-2006)

Most of the activities under SO1 were completed by September 2002. However, after the program's extension, three Global Development Alliance (GDA) projects and three new activities were initiated in SO1.

1. Nepal Tree Crop Global Development Alliance

The purpose of this \$800,556 GDA activity (Sep 02 - Sep 06) is to increase branded export of Nepalese tea and coffee to international markets; set in motion sustainable increased production of tea and coffee in Nepal; increase employment (poverty alleviation opportunities in production and processing; and develop effective extension services to enable small holders to participate in the international market.

Alliance Partners of this GDA activity are Himalayan Orthodox Tea Producers Association (HOTPA), Nepal Coffee Producers Association(NCPA), HCPC, Agro-enterprise Center (AEC), and Nepal Tea and Coffee Development Board (NTCDB), Germany(GTZ), Swiss Development Cooperation (SDC) and Holland Coffee Company (USA).

2. Certification and Sustainable Marketing of Non-Timber Forest Products (NTFP)

The purpose of this \$501,655 GDA activity (Sep 02 - Sep 05) is to increase incomes and employment for Nepal NTFP producers, promote sustainable resource management, institute a certification program, and expand responsible buying practices among industry members in the West.

Alliance Partners are ANSAB, Aveda, Rainforest Alliance, Himalaya Bio-trade Pvt. Ltd., Gorkha Aurved Company, Nepal NTFP Net work, Himali Jadibuti Sarokar Samuha, Federation of Community Forestry Users, The Ford Foundation, The Netherlands development Organization, and SDC.

3. Kathmandu Electric Vehicle Alliance (KEVA)

The purpose of this \$967,624 alliance activity (Sept 02 - Sep 05) is to achieve Kathmandu clean air through electric vehicle promotion and eliminate constraints to the expansion of electric based mass transit and promote the spread of electric vehicle systems and improved technology.

Alliance Partners are City of San Francisco, The World Environment Center, PADCO, and Winrock International, EVAN, Denmark (DANIDA).

4. Smallholder Irrigation Market Initiative (SIMI)

The purpose of this \$3,000,000 activity (Jun 03 - Sep 05) is to raise income of poor smallholder farmers through water access (micro-irrigation) and high value crop production and marketing with a market development approach. The activity is being implemented in 7 Western and Mid Western conflict affected districts.

The implementing partners are Winrock International, IDE, CEAPRED, and SAPROS and AEC.

5. Business Development Services for Marketing of Products and Services (BDS-MaPS)

The purpose of this activity is to expand support services for micro and small enterprise (MSE) development of businesses working with agricultural and forest products. This activity focuses on developing the entrepreneurial or business capacity of farm households and farmer groups and enterprises, so that they develop the awareness and the capacity to continue to access improved technology and markets for high-value crop production and marketing of non-timber forest products. This activity will strengthen the provision of business development services (BDS) directed toward micro and small enterprises (MSE) in both input supply and output markets within the target area. These services support MSE businesses to more effectively and efficiently produce and market agricultural and forest products. Increased profitability of these businesses will encourage their expansion and development and further strengthen the commercial network linking farmers to markets within and outside of Nepal.

This is a \$2.5 m activity for the period December 2003 - September 2006. The implementing partners are International Development Enterprises (IDE), Winrock International, WWF, ANSAB, and Lotus Opportunities.

6. Improved Policy Environment

This activity supports a policy program to address policy constraints in the production and marketing of agricultural products in the SO1 target zones, as well as macro-economic policy and trade issues that affect the production and export of high value agricultural products and NTFP. Further analysis and policy reform will help to improve the competitiveness of Nepal's agricultural sector and facilitate expanded market access and exports. The policy activity will target issues which have the potential to expand opportunities for Nepal to gain greater economic benefits from bilateral trade agreements with neighboring countries and to participate in the multilateral trading system of the World Trade Organization (WTO), which has the potential to significantly expand Nepal's regional and global trade opportunities. USAID has a Cooperative Agreement with Agro Enterprise Center of Federation of Nepalese Chambers of Commerce and Industry (FNCCI), a local policy analysis and advocacy organization with strong affiliations with the private sector and HMG/N to support analysis, advocacy and dialogue that can create the necessary enabling policy environment to support further investments and expand economic growth opportunities in the agro-enterprise sector. This is a \$250,000 activity for the period November 2003 - September 2006 implemented by AEC and ABTRACO.

Expected Results

1. Increased annual sales of high-value agricultural, livestock and forest commodities in target areas
2. Expanded Market participation
3. Farm and forest households selling high-value products in target areas
4. Increased adoption of improved technology
5. Expanded access to business services and markets
6. Improved policy environment

Conclusion

In the context of Nepal's Tenth Plan and Agriculture Perspective Plan, the key focus is on pro-poor development with the aim of achieving significant impact and poverty reduction. There is a great challenge to developing user responsive and sustainable technologies and to facilitating their uptake and up-scaling. The public sector must be dynamic and imaginative enough to develop and implement strategies that produce relevant technologies,

effective dissemination and useful policies. There should be a strong socio-economic and policy research program in order to meet the national objectives of food security, poverty reduction and sustainable agricultural development. This is especially important in changing national and global scenarios where the information and technology needs of the country can be addressed through development of social science skills in information management, market intelligence and policy research. Socio-economic and policy factors influence directly or indirectly the adoption and utilization of agricultural technologies by clients. There are several areas where attention needs to be specifically focused. Key to implementation is consultation, participation and consideration of the implications of a sector-wide approach to problems, integrating efforts and inputs from a range of stakeholders including the public and private sector. All these actions should, and will have, a positive, direct or indirect impact on poverty reduction.