

# insights



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## FEDERAL DEMOCRATIC REPUBLIC OF NEPAL COUNTRY STRATEGY AND PROGRAMME EVALUATION

# Supporting Inclusive Commercialization of Agriculture in Nepal

**In Nepal, one of the consequences of the country's population increase has been the decline in average landholdings. The average is 0.7 hectares per household, with 52 per cent of agricultural households operating on less than 0.5 hectares. Many small-scale farmers consider agriculture to be an insufficient source of livelihood, which has contributed to emigration from rural areas. Transitioning to high-value products (crops but also livestock) is a key element in national strategies for agricultural development, such as the Agricultural Development Strategy 2015–2035.**

IFAD's programme in Nepal has focused on higher-value products:

- crops such as spices, fruits and off-season vegetables (for national markets and exports)
- seeds (mostly cereal)
- livestock products, such as improved goat breeds for meat production and to some extent cow and buffalo milk.

In order for the transition towards high-value agricultural products to be viable, small-scale producers need to improve their access to value chains and markets, including international markets. Two projects have been particularly active in this area: the High-Value Agricultural Project in Hill and Mountain Areas (HVAP) and the Improved Seeds for Farmers Programme (ISFP). They have focused on the value chains mainly by strengthening: (i) horizontal linkages (e.g. forming groups or cooperatives of farmers); and (ii) vertical linkages (stable contracting between producers and aggregators/

processors). They have given less attention to functional upgrading of producer groups and cooperatives (e.g. adding functions such as processing and packaging).

Under both HVAP and ISFP, multi-stakeholder platforms (MSPs) have been instrumental in helping farmers negotiate for better prices but have had only a moderate effect on value chain governance. MSPs were to promote business linkages and trust between agribusinesses/traders and people's organizations and cooperatives.

Availability of hands-on technical assistance was fundamental. In this regard, the non-governmental organization *Stichting Nederlandse Vrijwilligers* (Foundation of Netherlands Volunteers) collaborated with HVAP. It identified and analysed value chains, developed strategies and action plans, trained project staff and seven District Chambers of Commerce and Industry to support the project in conducting MSP workshops and in establishing market linkages.

## Benefits to small producers

In HVAP, three value chains –apple, timut (pepper) and off-season vegetables – have provided additional average annual household income of more than NPR 30,000 (about US\$275). Ginger, goat, turmeric and vegetable seed have reportedly yielded an average annual increase between NPR 16,900 and NPR 21,000 (US\$155 and US\$192). An impact assessment of HVAP estimated an average reduction in poverty prevalence of some 8 per cent thanks to an increase in average household income of some 37 per cent (Kafle *et al.*, 2018).<sup>1</sup>

In the case of ISFP, producing for seeds (truthfully labelled) rather than for grains (for animal feed) generated better revenues to smallholder farmers (up to 30 per cent more). A further opportunity, which was not pursued, could have been to focus on certified seeds: these require laboratory certification but fetch higher prices.

A novelty introduced by IFSP was community-level breeding of improved goats (as opposed to traditional breeding in research stations). Boer buck-breeding herds are producing 50 per cent Boer offspring, enabling households to earn on average some NPR 63,340 (about US\$580) per year per herd. Several breeder group members had previously migrated for employment to India, Malaysia and Gulf countries, but are now able to stay in Nepal thanks to income from goat-rearing. However, there is an urgent need to rotate the bucks among the breeder groups to prevent inbreeding.

While increases in revenues and income are relatively well documented, the situation in terms of changes in food security has been more nuanced. In the case of HVAP, effects on cropping patterns and on dietary diversity have been modest. For example, dietary diversity scores of

treatment households were higher for households supported by the project than those of comparison households but the difference ranged from 1.4 to 1.9 per cent (Kafle *et al.*, 2018). Food insecurity, as measured in months with insufficient food to eat, has decreased among beneficiaries of ISFP (by two-thirds of a month). This happens during the first hungry season, which varies from district to district.

## Equity considerations

Under HVAP, poverty reduction indicators show the greatest impact among male-headed households and non-marginalized groups. Increases in income, assets and market access were slightly lower for female-headed households (34 per cent compared to 38.9 per cent) and well below for Dalit (low-caste), Janajati (indigenous groups) and other ethnic minority households (16.4 per cent compared to 41.2 per cent).

Under ISFP, seed companies have received higher financial support compared with farmers. Five seed companies that bought seeds from farmers received a total of NPR 61.23 million (US\$561,000) in grants for improvements in their processing, laboratory and storage facilities. The project supported farmers on seeds with a total of NPR 22.82 million to 78 subprojects in six districts, an average of NPR 292,564 (US\$2,680) per subproject. Some investment in fixed capital was necessary to expand companies' collaboration with smallholders. However, companies could have also mobilized their own capital or taken loans. Moreover, seed companies that received subsidies signed an agreement with the project for three years, up to the time of project completion. It is not clear whether they will continue buying from smallholder farmers after the project closure.

## Sustainability

HVAP and to some extent ISFP have established local, district and regional-level collection and market centres and worked with companies that have sold smallholder farmers' produce within the country and abroad. Timur is exported to France and Germany, ginger to Germany, and carrot seeds to Bangladesh. Although the market outlet is now better established, profitability for smallholder farmers will depend on their bargaining capacity and the transparency of price formation. The continuation of MSPs will require close review. The District Chamber of Commerce and Industries, the institutions that have been engaged by the projects in managing MSPs, may not have sufficient human and financial resources to continue doing so beyond project closure.

<sup>1</sup> Source: Kafle, K., Krah, K. and Songsermsawas, T. (2018). Impact Assessment Report: High-Value Agricultural Project in Hill and Mountain Areas, Nepal. IFAD, Rome, Italy.

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### Further information:

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