

International Development Enterprises Nepal

Making BDS Providers Work for the Smallholder Farmers in

Nepal

Lessons Learned and Insights Gained

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List of Acronyms

MSE	: Micro and Small Enterprise
BDSP	: Business Development Service Providers
ADO	: Agriculture Development Office
DDC	: District Development Committee
VDC	: Village Development Committee
MARD	: Market Access to Rural Development
NGO	: Non-Governmental Organization
CBO	: Community Based Organization
IDE N	: International development Enterprises Nepal
RUPP	: Rural urban Partnership Program
ADB N	: Agriculture Development Bank, Nepal
DOI	: Department of Irrigation
IPM	: Integrated Pest Management
BDS	: Business Development Services
NPC	: National Planning Commission

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Lessons Learned and Insights Gained

1.0 Introduction

Sandwiched between India and China, Nepal is predominantly an agrarian country with 85.8 % of the total population of 23, 151, 423 (Census 2001) living in the rural areas. About 80% of the rural population depends heavily on agriculture sector for their livelihood. 76% of the labour force is involved in agriculture and women contribute almost 60% of the agricultural labour force. Small and marginal farmers operate 90 % of the 2.7 million agriculture holdings; the average size of these holdings is less than one hectare.

As a national arm of International Development Enterprises Inc., IDE Nepal has been promoting BDS markets with the objective of enabling the subsistence smallholder farmers to be commercially oriented and making their produces competitive through productivity increase, diversification of produces and efficient marketing. Its efforts are directed at facilitating backward and forward linkages between smallholder farmers known as MSEs and BDS providers. Promoting business relationship between these two stakeholders to trade their way out of poverty IDE Nepal has sought to bridge the existing huge gap between the supply of and the demand for BDS by following a demand led, market creation approach.

IDE Nepal with the financial support of USAID started implementing the smallholder BDS program in October 2001 in three Terai districts and two hill districts in western Nepal. Implementation steps were as follows.

- Orientation of Project staff on the conceptual and operational aspects of BDS project
- Sharing of implementation plan of the BDS project with line agencies and local governing bodies
- Establishment of Field Co-ordination office
- Orientation and placement of all field staffs at five project sites.
- Field surveys to identify weaknesses and opportunities and design interventions to develop both input and output markets.
- Series of participatory workshops were organized for both input and output providers of five project districts for prioritizing the problems of BDS providers and devising appropriate interventions
- Two experts were contracted to study and identify the training needs of BDS providers and also develop training packages for them.
- Planning Workshop to adapt and develop the interventions to the needs of the target groups.
- Build the supply chain and rural mass marketing programs.

The major thrust of IDE Nepal project activities has been on BDS Market Development for smallholder farmers in the rural areas of three Terai districts (Rupandehi, Kaplibastu

and Navalparasi) and two hill districts (Palpa and Kaski) of Western Nepal). We focused on stimulating BDS demand among 4,773 MSEs through awareness rising and education, and the capacity building and networking of 471 BDS providers to attract their business. The MSEs were organized into 251 groups of vegetable producers comprising 4,773 MSEs and including 2195 women entrepreneurs. By conducting a series of marketing and training activities IDE Nepal has helped improve their capacity to adopt, use and promote high value irrigated vegetable production technologies. We closely worked with vegetable traders and farm groups to facilitate the timing, size, and quality of produce sales. We also worked with government line agencies, vegetable collection centers, agro vets and local broadcasting stations to supply market information and agronomic know-how to maximize returns to farm producers.

BDS providers are marketing products and services to MSEs. In the rural area agro-vets play an important role in providing MSEs with seeds, fertilizer, pesticide, micronutrients and other agri-inputs. Lead farmers selected from different farmers' groups are providing agronomic support and other services to MSEs. Mistris are mechanics installing the treadle pump in the farmers' fields.

2.0 Summary of Main Activities

IDE Nepal BDS project focused on promotion of micro irrigation technologies (treadle pumps in the Terai and Drip and Micro-sprinkler irrigation systems and low-cost water storage tanks in the hills), off-season vegetable production techniques, the leader farmer concept of providing services, the agro-vet concept of providing information services, and the supply of quality inputs (seeds, fertilizer pesticides, micronutrients) and the market delivery of upstream services needed by the MSE groups.

To improve smallholder producers (MSEs) access to quality agricultural inputs and output services, the program facilitated linkages between production groups and the existing local, regional, national and external marketing systems. A series of activities were conducted for building the capacity of 471 BDS providers and 4,773 MSEs in the period of two years. Linkage of groups of MSEs with output markets was promoted while contacts were made with line agencies to develop market information tracking systems for smallholders.

Before embarking on interventions, IDE field staff conducted a two-month, field-based assessment of the existing markets in order to identify weaknesses, gaps, constraints, opportunities, and the reasons behind the lack of demand for or supply of inputs and services. The surveys focused on collection of information regarding the profiles, problems and needs of BDS providers and MSE's. Using semi-structured questions, IDE field staff conducted focus group meetings and household interviews. The constraints were ranked based on a scale of one to 4, with one the highest score and four the lowest. Irrigation was a major constraint identified by 44.4 percent of MSEs (n=2,289) served in the project area while 40.4 percent and 38.7 percent respectively considered lack of quality seeds and technical knowhow as a major constraint. 9 to 23 percent of farmers

listed problems of transport, vegetable marketing, plant protection, vegetable price, fertilizer and finance as major problems.

The smallholder market environment is characterized by a three-part system comprising input market, the small farm and output market. IDE has identified four critical market factors that demand attention in the input-production-output commodity chain.

- Technology: the technologies required for increasing MSE's productivity, delivering the necessary inputs, and moving outputs to markets.
- Capacity-building the knowledge, skills and experiences of the MSEs and the BDS providers that serve them.
- Information: timely and accurate information about crop prices, evolving market conditions, new opportunities etc.
- Credit/ capital micro-credit loans to MSEs and capital loans to enterprises that serve the small-holder market.

IDE has designed specific interventions in the light of the dominant constraints in each project area as identified in the field surveys

3.0 Intervention Designs and Support Initiatives

IDE Nepal has focused on horticultural crops specially income generating vegetable crops in which MSEs have comparative advantage. MSE's have an important advantage over large farmers in that their family labour can be applied with little or no cost for supervision besides applying highly intensive production practices, i.e., practices that allow for a high level of control over all production factors involved. Small farmers as micro entrepreneurs were oriented towards producing according to market demand cycles rather than producing according to what other farmers are doing. After market research IDE Nepal has identified opportunities for MSEs to grow during the off-season, when prices are the highest and soil conditions allow MSEs to grow drip-irrigated cauliflower and cucumbers at a time they cannot be produced in the terai or India, bringing prices twice as high as in the main season.

Based on the information of the existing markets, BDS market interventions were designed for developing small-holder market systems to make it possible for the rural poor to be participants of both input and output markets, and to derive significant net income from their micro-entrepreneurship. Two subject specialists were hired to study the training needs of Agricultural input providers and recommend appropriate training design. They studied the BDS provided by 31 input providers in the five districts including two women input providers. According to their main findings, most of the input providers were dealing in improved seeds, fertilizer and agri. equipment without any systematic training and they lacked knowledge of plant protection methods, pesticides classification and their uses. As such training design and lesson plan along with training evaluation methods were prepared to build up their skill in delivering quality input services along with basic technical information.

Typically, production factors (such as technology, capacity building and market information) are neither available to MSEs in a form that is useful to them nor at

affordable prices. As such IDE Nepal is activating the private sector BDS providers to address the particular needs of MSEs by delivering appropriate and affordable products and prices. It is involving multiple players including local NGOs, CBOs, line agencies and local governing bodies in technology development, training and capacity building, and market information development. After five to six years of market interventions, it is expected that MSEs will be sufficiently integrated with market systems that they will achieve net income amounting to more than US\$ 500 per year from cash crop production. At this point, external intervention is phased out, leaving the market to operate under its own power, and leaving farmers well-informed, motivated, and organized to continue developing and taking advantage of market opportunities on their own.

BDS market facilitation activities are as follows:

BDS provider	Products	Services	Client	Payment mode
Ag- input dealer	Micro irrigation equipment, seeds, fertilizer, pest control	Information about proper selection and use of products	MSE	Bundled in the price of the product
Vegetable trader	Fresh vegetables	Access to major markets	MSE	Bundled in the price of the product
Farmer's group		Ag training, access to dealers and traders, information technology	MSE#	

Activities planned and implemented in the light of constraint analysis are briefly mentioned below:

<i>Market development through promotion, capacity building and quality assurance</i>	
<p>A.1 MSEs</p> <ul style="list-style-type: none"> • Off-season nursery management training • Off-season high value vegetable production for high return • Post harvest training (harvesting, grading, cleaning, packaging, transportation etc) • Plant protection or IPM training for high value crops • Low micro-irrigation training (Treadle pump, drip irrigation, micro-sprinkler and low cost water storage) • Training on cost and benefit 	<p>A.2 BDS Providers</p> <ul style="list-style-type: none"> • Handling and management of inputs (seeds, fertilizer, micro-irrigation, plant protection chemicals etc) • Training on marketing skills and business mgmt. • Mason/installer Training for low cost micro irrigation (treadle pump, drip, micro sprinkler, water tank) • Training to BDS providers on high value vegetable production and input and output marketing • Account keeping training to BDSP • Group dynamism training to BDSP

ratio/analysis

A.3 Linkage and Coordination Workshop

- Village level coordination meeting
- District level coordination meeting
- Quarterly input trader meeting
- Quarterly output trader meeting
- Linkage workshop between MSEs, BDS providers and line agencies
- Linkage development workshop between MSEs and input traders and MSEs and output traders
- Mason/Installer workshop
- Dealer and manufacturer workshop
- MSEs feedback interaction meeting
- BDSP feedback interaction meeting

A.4 Promotional and Motivational Activities

- Target group meeting
- Public bill board
- Wall painting
- Pump demonstration
- Hand bill
- Training materials/ manuals
- Observation tour

4.0 Institutional context

IDE Nepal has devised a multidimensional strategy to help overcome the numerous constraints at the input, throughput and output levels that prevent smallholders from participating fully in the commercial markets. IDE approach is to work and collaborate with all partners who can contribute to providing a package of complementary and supporting inputs (biological technology, institutional services, production inputs and also, incentives, credit, market etc) to small farmers to enhance the realization of intended results. Institutions, training and diffusion process, access to production inputs were needed by farmers in the same sort of way that there was a package of inputs behind the green revolution; seeds alone were not enough.

IDE is involving the NGO sector, the government sector and the business sector to undertake a broad range of activities required to create smallholder market systems. IDE Nepal's role is basically that of catalyst and facilitator in creating an enabling environment, promoting an enterprise culture and developing a smallholder oriented sustainable marketing system.

5.0 Impact of BDS Intervention

- According to the findings of the preliminary impact study by an independent consultant, the net income from the vegetables sale was US\$162 per MSE) as against the target of US\$80 in the first year of the BDS project (October 2001-September 2002). The MSEs supported by the project marketed 80% of Vegetable production.

- Farming system has been found to change from traditional to improved one. Some traditional crops are being replaced with improved and hybrid vegetable varieties.
- In upland where farmers were growing maize alone during rainy season, farmers grow tomato, cabbage, cauliflower beans and peppers as normal season and off-season vegetable crops.
- Normal and off-season vegetable cultivation has arrested migration, mainly due to a large extent by proving productive employment locally. Women farmers also have become the key actors among their household members as more than 50% of the works being performed by them in vegetable cultivation.

6.0 Lessons learnt and insights gained in the first two years of the three years BDS Project

1) Process and Strategy for Effective BDS-Market Facilitation

In the past, we focused mainly on implementation of appropriate interventions for developing small farm enterprises, and focused less on a comprehensive process and methodology and more on quick result-yielding activities. During the start-up of the three year BDS project we felt that the staff should be oriented towards a more process-oriented approach with a need for focusing on gathering of data to fulfill the need to properly assess the impacts of the project. In fact IDE was very successful at re-orienting the staff, and they became heavily involved in surveys and data gathering. To a certain extent, this was important to orient the staff towards the monitoring and evaluation system and the performance indicators. But once the staff was fully oriented and comfortable with both the BDS facilitation process and the performance indicator framework, they were mobilized to focus more on some of our traditional strengths such as building of sustainable supply chains for micro-irrigation equipment, and marketing assistance to that chain. This was important in order to increase the number of MSE's served by the BDS providers according to the targets set for three years. At the same time, using the strong base of BDS providers and village networks established in the first 6 months of the project, we were in a good position to facilitate the delivery of quality services to the new MSE's.

2) Synergy effect

IDE activities are generating a synergy effect in the project area in terms of collaborative relationships and linkages. It is our experience that private sector entrepreneurs, NGOs, and local line agencies and governing bodies can, through collaboration, obtain more far-reaching and sustainable results. IDE Nepal is collaborating with several agencies in the development of collection centers and promotional and training activities. Using partner organizations in social mobilization and working with already functioning groups of MSEs has enhanced the cost effectiveness of project activities.

IDE Nepal has also taken note of a synergy effect outside the project areas as a result of activities conducted in the project area. A new strategy has to be devised to provide support services outside the project area by involving private sector BDS providers.

3) Sustainability

The market development approach to business services is imperative from the point of view of sustainability. There is a need to assess the market, identify non-distorting points of intervention with an eye on sustainability. Sustainable development of BDS markets implies building profitable business relationship among the program functionaries and paving the ground for the long term durable results of the project intervention in the context of the specific conditions of the project area. Development can not be hurried along and all functionaries have to combine their efforts to achieve the sustainable results. Sustainability is possible only through participation and empowerment of stakeholders (target MSEs, private sector service providers, NGOs and line agencies). Capacity building is needed for all stakeholders; institutional development should start from the planning stage and be continuous. The three year time frame of a project is too short for achieving sustainable results. At least a six-year term is necessary for a project to generate desired results.

4) Institutionalization of Leader Farmers as a Commercial Entity

IDE Nepal has trained 278 Leader farmers as BDS providers. The focus is on enhancing both skill and incentive levels to enable them to function as a commercial entity as other BDS providers. Since most MSEs are reluctant to pay for their services, thought is being given to embedding their charges in the costs of inputs. It is equally important to build up MSEs faith in the know-how of Leader farmers by intensively involving them in practical project activities as both resource persons and trainees

It is assumed that with the commercialization of vegetable farming, MSEs may be able and willing to pay for their services. According to an impact study of BDS project areas (2002), 67% of MSEs received help in nursery raising, 40% in production technology, and 51% in plant protection. 285 MSEs were involved in post harvest handling of vegetables from the leader farmers trained by the project. We are encouraging leader farmers to work as mobile sub-dealers of agricultural inputs on a commission basis. In palpa district of Nepal IDE has mobilized 12 Master Leader farmers in providing agronomic and technological support to MSEs. It is using project money to pay them for their services as resource persons. Local Red Cross Society and RUPP (Rural Urban Partnership Program) are also using IDE trained leader farmers as resource person to train and support their target groups. This underlines the increasing acceptability of leader farmers trained by IDE Nepal

5) Women's Involvement in Vegetable Cultivation

The role of women is crucial in vegetable production from planning to implementation: their priorities often differ from those of men. Women constitute the backbone of the rural food system cultivating food crops together with men. In placing women within the

household context, it is necessary to emphasize that although individual households have shared interests, they also have separate interests.

Although vegetable farming is a joint family enterprise, more and more active women and less economically active men are becoming involved in it as indicated by the government Bureau of Statistics. The BDS project is training and encouraging women. The preliminary impact study found women carried out 52% of the activities of vegetable cultivation

6) Facilitating Credit Flow and Other Forms of Assistance

Flow of credit or other forms of assistance facilitates adoption of the technologies by the poorer section of the farming community. The preliminary impact study shows that 80 percent of MSEs have poverty loans from different sources. 50% have poverty loans from savings and credit groups and other group funds, 30 % from village moneylenders, and only 20 percent from banks. Although the focus of the BDS project is on non-financial business services, facilitation of credit linkages with financial organizations may promote entrepreneurship. Access to finance will enable the poor potential entrepreneurs to participate in the market.

7) Facilitating Market Information

Market information makes both BDSPs and MSEs more effective. In the rural areas market information is often distorted or non-existent. By improving the quality and flow of market information, IDE has facilitated a more informed, transparent, and competitive marketplace for both BSPs and MSEs . Tools such as community radio, FM stations and promotion campaigns are being used to ensure that information is pushed back into the market.

8) Adjusting to Project Area Specificities

Specific project area characteristics and their operational implications must be taken into account while designing and implementing programs. To be effective, project interventions need to adjust the requirements to the specificities of both the hills and plains project areas.

9) Opportunity Costs

In rural areas the poorest people are involved in a diverse category of activities and often this is their livelihood strategy. For them, participation in program activities with an expectation of financial returns means a trade -off of time that would otherwise be spent in other livelihood activities. Interventions need to ensure mechanisms that allow for participation by the poorest members of communities by ensuring comparative advantage to them

10) Creating Multiplier Effect

Building capacity of BDS providers to deliver services to the underserved segment of the MSE market helps create multiplier effect in the sense that support given to one BDSP would be transferred to hundreds of MSEs through the services the BDSP sold. Any move toward a more commercially oriented market strategy maintains and even expands the multiplier effect by improving the overall efficiency of the market to deliver more services to more MSEs over a sustained period of time.

11) Integrating the Poor into Mainstream Markets

Essentially, this entire project is focused on integrating the poor into mainstream markets. We are integrating poor farm producers of cash crops into the mainstream vegetable markets in Nepal. The means to do this is by increasing sustainable access to productivity-enhancing products and services. These products and services include: micro-irrigation equipment, agricultural inputs (seeds, fertilizer, pest control), repair and maintenance of irrigation equipment, access to downstream markets, and access to agricultural information.

The project has made significant progress in providing access to these items. A private sector supply chain for micro irrigation equipment (Treadle pumps, drip irrigation, sprinkler irrigation, and water storage tanks), has been facilitated in all of the five project districts. This chain includes manufacturing, dealerships, and trained technicians for installation, repair and maintenance. By helping to set up this network, we ensure the sustainable (for-profit), availability of irrigation equipment and associated services to farmers in their local area. The same has been developed for supply of agricultural inputs, and for trading of vegetable produce. By linking the farmers and farmers groups into these input and output market networks, we are essentially facilitating the quick integration of small vegetable producers into several mainstream markets. By increasing the capacity of these marketing networks to supply quality goods and services through training and orientation, we also assure the sustainability of this access.

12) Ensuring the Poor Benefit from BDS Market Development

IDE has carefully selected the target groups of farm enterprises to fit in well with the smallholder BDS market development. IDE has developed a set of technology options for small farmers. While expanding the customer base (number of farm micro-enterprises) we have focused on this group of farmers, because these types of farmers are the majority of the farmers in Nepal. Thus IDE is facilitating provision of services to the small farmers and transforming them into viable micro-enterprises.

The experience of IDE and other organizations has shown that other agricultural inputs (such as high quality seeds and plant protecting inputs) and output services (such as down-stream marketing and market linkages) can be made affordable for the small-holder and still be profitable for suppliers. With the right products, appropriately sized, priced and marketed –the private sector can deliver appropriate inputs and output services to smallholder in a sustainable relationship

It can be assured that the poor benefit from these developments by focusing on the small-scale technologies that we have used in the past (treadle pumps and drip irrigation).

13) Reaching Downstream Market

IDE has started with the simplest downstream market interventions. They include orientation of farm groups on output marketing, and conducting of workshops where farmers and output traders can meet and learn about the nature of each others business. Both groups are encouraged to develop effective business relationships through attendance at these workshops. So far the reaction of both groups has been very positive, with attendance at the meetings running as per expectation. In addition to these simpler interventions, IDE has begun a process of seeking out linkages to agro-processing industries. The first such linkage has been to tomato sauce factory in eastern Nepal

14) Embedded Services

Most of the services available to vegetable producers in this project are embedded services. It would take a long time to develop a market in this sector based on fee for service, because the farmers have come to expect that all services are free (even if they are not available). Therefore, embedding services in the input and output markets are the most effective strategy in the short term. By building the capacity of the input providers to make informed recommendations at the point of purchase, IDE is strengthening a system that is already in existence, but has been relatively ineffective. Also, the development of leader farmers as local entrepreneurs will make embedded services available at a more local level in the hills. The same goes for the output marketing networks. By building the capacity of the farmers to understand and effectively interact with the output markets, and by building the capacity of the traders to effectively market produce, we make produce marketing services available and effective.

15) Quality of BDS Provision

According to an independent study conducted by the end of the first year (October 2001-September 2002), 79.1 per cent of the MSEs are satisfied with the seeds supplied by agro-vets, 68.4% with fertilizer quality, and 77.8 % with plant protection chemicals. Only 48% MSEs are satisfied with vegetable traders who buy vegetables regularly. 44.9% of them are satisfied with the prices paid by veg traders.

16) Policy Impact

Incomes of rural communities are affected by policy changes at the macro level as well as existing market structures. Project staffs mostly working at the micro level may in the end find their efforts for income enhancement for communities limited by higher-level policy constraints. For poverty alleviation purpose it is not enough to work only with grassroots organizations. A parallel approach to build the capacity to work on policy issues at the national or other levels is imperative. IDE Nepal has been lobbying with NPC, ADBN, DOI and the Ministry of Agriculture regarding government policies on micro irrigation, credit, agriculture extension and inputs supply. It is necessary to work with the organizations which are active at national, regional and local levels to analyze policies and regulations that affect BDS and high value agriculture. Equally important is

working with local governing bodies such as DDC, VDC and municipalities regarding local taxes, stray animals and other issues.