



## LEARNING NOTE

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# Does market development work in Nepal?

Itad has just completed an evaluation of Samarth-NMDP<sup>1</sup>, the first market systems programme in Nepal, for the UK Department for International Development (DFID). One of the main issues we focused on is whether this type of programme is relevant to Nepal.

In this learning note we tackle this question and discuss whether these programmes can be effective in reducing poverty in Nepal, what challenges programme implementers are likely to face and how these programmes can be better implemented in the future.

## The short answer is 'yes'

Our research indicates that market systems programmes can be effective in Nepal, especially where they:

1

**Tackle demand and supply side constraints in the same value chain and harness 'demand-pull'**

2

**Facilitate strategic partnerships between market players to overcome this combination of constraints**

3

**Identify and address enabling environment challenges in partnership with the public sector**

In such situations, these programmes can open opportunities for increased market access and increased revenue to smallholder producers, who are willing to change practices to take advantage of these.



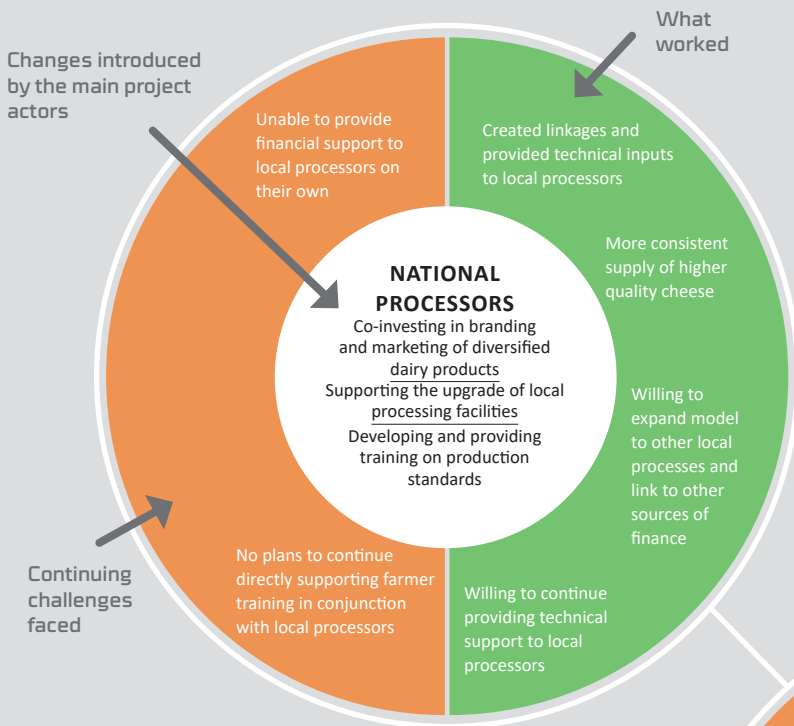
**However:** there are particular challenges to implementing Making Markets Work for the Poor (M4P) programmes in Nepal that implementers, government agencies and donors must take into account.

1. Samarth NMDP ran from 2012–2018 and aimed to increase productivity of 165,000 male and 165,000 female smallholder farmers and to improve their incomes by an average of £80 per year.

On the next page we highlight an example of a successful M4P intervention in action



# M4P in action



## What did Samarth aim to do?

Improve integration of milk value chain actors so local cheese producers and smallholder farmers benefit from improved market access.

## What role did Samarth play?

The programme helped to facilitate the new relationship and provided financial support to de-risk the investments by the two parties.

## How did it work?

The Samarth programme worked with a national dairy processor to upgrade the processing facilities and expand the milk collection of a local cheese producer. In turn, the local producer worked with smallholder farmers to improve milk productivity and quality through improved husbandry practices.



## What were the results?

The dairy processor gained a more regular supply of cheese at a more consistent quality to be sold in Kathmandu under its own brand name.

### Mutually supportive results based on demand-pull:

The two companies signed a production agreement for a regular supply of cheese. This increased market access for the cheese producer and provided an incentive for them and local smallholder farmers to improve the quality of supplied milk.



On the next pages we highlight the key challenges in implementing M4P in Nepal and make recommendations to overcome them

# Implementing M4P in Nepal

## Things to be aware of

1

### 'Thin' markets limit the choice of programme partners

! The size and depth of Nepali market systems means that there is a limit to the number of players who are either capable and/or willing to partner with a programme. While M4P programmes may pilot interventions, when it comes to implementing on a larger scale, a programme has to partner with players who have the depth and breadth of capacity, as well as the financial resources to commit to the process. Samarth's experience is that willing partners do exist, but they are few in number and often lack the reach that an M4P programme would prefer. Working with a smaller number of players means a programme might inadvertently entrench the role of its partners, effectively skewing the market in its favour. This is something that M4P programmes oppose.

✓ **RECOMMENDATION:** Nepali M4P programmes should take time to develop sound partnerships and be prepared to spend more resources in developing their partners' capacity. They should continually seek to identify and partner with other market system players to avoid market distortion, and should consider opportunities to collaborate with other programmes and to offer time and resources to meet shared objectives.



Preparing feed for cattle, Morang District



Checking onion seeds for pests, Dailekh District

2

### Out of date quality frameworks and/or limited enforcement of existing standards negate efforts to increase income

! Farmers expect increased income for adopting improved practices. However, in the absence of sector-wide quality standards or enforcement of these standards, the market does not reward this effort. This limits market differentiation and prevents wholesalers and producers from achieving higher returns from investments in processes to add value. In addition, Nepali producers report increasing production costs, squeezing farm related income. This contributes to farm labour seeking other income streams and off-farm income becoming increasingly important.

Samarth's experience highlights that demand-led incentives (a demand 'pull') for improved product quality can be effective in driving practice changes and can offer benefits to producers even in the absence of updated sector-wide quality standards. However, such initiatives work against the grain of a challenging enabling environment and their potential sustainability and scale is more limited as a result.

✓ **RECOMMENDATION:** M4P programmes should identify specific constraints in the enabling environment early on and be realistic about their likely impact on the longer-run sustainability and scalability of interventions, and look for suitable entry points to tackle them including working with public sector agencies, private sector bodies and other programmes.

3

### Fragmented value chains make it difficult for poor producers to enter formal markets in Nepal

! Poor producers may not automatically access formal markets by improving their practices. This entrance and relationship needs to be facilitated and mentored. Strategic partnerships to improve value chain coordination are a vital part of this process.

✓ **RECOMMENDATION:** M4P programmes should not assume that poor producers will access new, formal markets after making changes to their practices. This highlights the importance of brokering strategic partnerships in order to improve supply chain coordination.



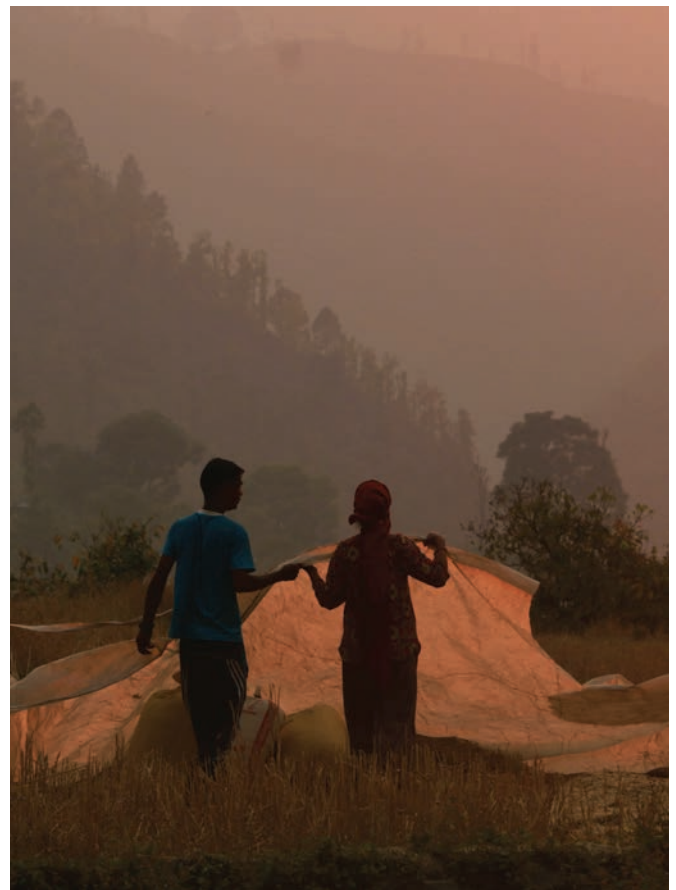
Manang District

4

### Direct government intervention in market exchange can stifle the development of a vibrant private sector

! As a result of historical engagement in production and exchange, including widespread provisions of subsidies, private sector actors have reduced willingness to pay for or invest in new processes or services. Private sector players often compete with state producers selling at subsidised rates which further undermines the development of a vibrant private sector. Legacy price controls limited market differentiation based on quality and undermine efforts by processors and producers from achieving higher returns from investments in value-adding processes.

✓ **RECOMMENDATION:** M4P programmes should be acutely aware of their operating environment and should be realistic about where they are able to intervene within programme timeframes to make improvements in the enabling environment. Suitable entry points may include support to sector bodies to build their capacity to advocate for change and collaboration with existing initiatives, although both approaches will take time to bear fruit.



Rice harvest, Dailekh District

#### What are M4P programmes?

M4P programmes work with private and public sector partners to introduce sound business practices that meet the needs of the poor. These programmes aim to produce results that are sustainable and replicable beyond the life of the programme without further donor support.

Text by Gordon Freer and Edward Hedley, September 2019. Photos by Edward Hedley 2017–2019

This evaluation was delivered by the e-Pact consortium

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