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अमेरिकी जनताबाट

# ANNUAL REPORT

**NEPAL, ECONOMIC, AGRICULTURE, AND TRADE ACTIVITY  
OCTOBER 2012- AUGUST 2013**

**Contract No. AID-367-TO-11-00001**

## **August 2013**

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Point of Contact  
Tanna Bruce  
Project Director  
USAID Contractor  
Tbruce@chemonics.com

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## ACRONYM LIST

ABBS	Any Branch Banking System
AEC	Agro-Enterprise Center
AgEC	Agriculture Enterprise Curriculum
CNI	Chamber of Nepalese Industries
CPMPA	Competition Promotion and Market Protection Act
CSD	Centre for Self-Help Development
DADO	District Agriculture Development Office
DAG	Disadvantaged Groups
DOC	Department of Customs
DRI	Department of Revenue Investigation
FDI	Foreign Direct Investment
FEFVEN	Federation of Fruits and Vegetable Entrepreneurs Nepal
FITTA	Foreign Investment and Technology Transfer Act 1992
FNCCI	Federation of Nepalese Chambers of Commerce and Industries
FOPA	Forum for People's Awareness
FORWARD	Forum for Rural Welfare and Agricultural Reform for Development
GAPs	Good Agricultural Practices
GON	Government of Nepal
ha	Hectares
HH	Household
HS	Harmonized Commodity Description and Coding System
HSTP	Himalayan Shangri-La Tea Producers
HURDEC	Human Resource Development Centre
ICT	Information, Communication, and Technology
IEA	Industrial Enterprise Act
IER	Industrial Enterprise Regulations
INSAN	Institute for Sustainable Agriculture in Nepal
IPM	Integrated Pest Management
IPR	Intellectual Property Rights
IRD	Inland Revenue Department
kg	Kilogram
KIDS	Kapilbastu Integrated Development Services
LOP	Life of Project
M&E	Monitoring and Evaluation
MADE	Multidimensional Agriculture for Development
MFI	Microfinance Institution
MIFAN	Microfinance Association Nepal
MIS	Marketing Information System
MOF	Ministry of Finance
MOCS	Ministry of Commerce and Supplies
MOI	Ministry of Industry
MT	Metric Ton
NARC	Nepal Agricultural Research Council
NEAT	Nepal Economic, Agriculture, and Trade Activity
NGPTA	Nepal Ginger Producers and Traders Association
NRs	Nepali Rupees
NRB	Nepal Rastra Bank (Central Bank of Nepal)

NUBL	Nirdhan Utthan Bank Limited
OCR	Office of the Company Registrar
PCA	Post-Clearance Audit
PIR	Project Intermediate Results
PMP	Performance Monitoring Plan
PPD	Public-Private Dialogue
PPSDC	Public Progress Social Development Center
RFP	Request for Proposal
RRFU	Research and Revenue Forecasting Unit
SEAN	Seed Entrepreneurs Association of Nepal
STAN	Specialty Tea Association of Nepal
TOT	Training of Trainers
TPAW	Trade Policy Analytical Wing
UNYC	United Youth Community
USAID	United States Agency for International Development
USC	Unity Services Cooperation
USG	United States Government
VDC	Village Development Committee
WTO	World Trade Organization

## I. INTRODUCTION

The Nepal Economic, Agriculture, and Trade (NEAT) Activity is a project funded by the United States Agency for International Development (USAID) designed to promote economic growth, reduce poverty, increase food security, and improve lives in Nepal. The NEAT project commenced in January 2011 and concluded in August 2013.

In Year 3 NEAT concluded the final phase of implementation and focused on handover activities, knowledge transfer, and market linkages to ensure a sustainable exit. Final project data was collected and all 54 grants on the project were closed. In August 2013 the closing event for NEAT was held in Katmandu.

During the life of the project, NEAT reached 80,221 households and more than 560,000 people; increased farmer sales by \$26.8 million USD with an additional \$10 million USD estimated for by September 2013; supported 68 public private dialogues; analyzed 40 policy and administrative reforms of which nine are being implemented; facilitated nearly \$4 million USD in loans for rural beneficiaries- mostly women. Results from FY 2013 reflect the significant scale up phase of the project during FY 2012. Results from FY 2013 include:

- 8,773 new borrowers from USG assisted microfinance institutions (10,429 borrowers reached during the life of the project)
- \$18,250,521 increase in farmers sales
- 8,250 hectares under improved technologies or management practices (14,913 hectares during the life of the project)
- 1,306 participants in public private dialogues (3,310 participants during the life of the project).
- 16 new or upgraded collection centers (80 collection centers established or upgraded during the life of the project).

Additional project results are reported in Section III. Section II discusses the major accomplishments under each PIR.

## II. ACTIVITIES AND PERFORMANCE

### B1. PIR 1: Economic Policies Strengthened

As Nepal strives to become a more active participant in the global market, there has been a growing realization and appreciation of the need to create an economic environment more conducive to business, both domestically and internationally. NEAT supports the GON and the private sector to improve the business climate through i) improved policies, regulations, and procedures, ii) increased capacity, and iii) information gathering and dissemination.

NEAT has analyzed 40 policy reforms, acts, regulations, and administrative procedures, of which 9 have been passed for implementation.

#### Sub- IR 1.1: Business enabling environment strengthened

*Activity 1.1.1: Assist the Ministry of Industry (MOI) to amend subcomponents of the industry policy (IEA and IER).*

The GON introduced a new Industrial Policy in 2010. The policy is broad based and promotes micro, small, medium and large industries. However, reforms to the subcomponents of the policy including the Industrial Enterprise Act (IEA), the Foreign Investment and Technology Transfer Act (FITTA), and the Intellectual Property Rights Acts are necessary to fully realize the benefits of the new Industrial Policy. At the request of the Secretary of the Ministry of Industry (MOI), NEAT provided technical assistance to amend the relevant acts under the new Industry Policy.

In an effort to align the Industrial Enterprise Act (IEA) with WTO requirements, and given that the previous Industrial Enterprise Act was drafted in 1992 and modified in 1996, NEAT supported five public-private dialogues (PPDs) on the draft bill, four at the regional level and one in Katmandu, to revise the IEA in FY 2012. Through the PPDs, the private sector voiced concerns regarding incentives for the private sector, the heavy burden of bureaucratic procedures, and the need to update the classification of industries to include the service sector, ICT (Information, Communication, and Technology), and tourism, among others. Revisions to the IEA will simplify the procedure and reduce the processing time for registration, address inadequate legal provisions for investment protection, and establish funds for promoting industry (e.g. Venture Capital Fund, Women Entrepreneurs Development Fund, and Small Industry Development Loan Fund), develop the institutional mechanisms to manage these funds (e.g. oversight committees), and establish the legal authority for the MOI to administer these funds.

*October 2012-August 2013*

After receiving the draft IEA prepared by NEAT's legal consultant and incorporating feedback from five PPDs hosted by NEAT partner FNCCI, the MOI requested NEAT's assistance in hosting an inter-ministerial retreat meeting with the goal of building consensus on key aspects of the draft. During the meeting consensus was reached on most issues. Although the MOI and MOF are still working to reach consensus on the fiscal incentives to be provided in the form of taxes and duty exemptions/deductions, the minister of finance has repeatedly stated that approval of the act is among his highest priorities.

New Industrial Enterprise Regulations (IER) will be required to implement the proposed new IEA. NEAT contracted PACE Nepal to support the MOI in drafting the new IER. PACE Nepal prepared a draft IER and presented it in six PPDs jointly with the MOI and FNCCI. The PPDs were organized at the regional level in Dhangadhi, Nepalgunj, Pokhara, Chitwan and Biratnagar and one PPD was held in Kathmandu. The issues raised regarding the draft IER were simplification of procedures of entry and exit, information flow, increasing the responsibilities of the Industrial Promotion Board, setting up criteria and procedures for incentives, land procurement/leasing, and operation of one window service centre. After incorporating feedback from the PPDs, NEAT forwarded the final draft to the MOI in June 2013 for further processing at the MOI and Cabinet's approval. The IER approval can only be initiated after the draft IEA is approved.

*Activity 1.1.2: Provide assistance to the MOI to amend subcomponents of the industry policy and formulate a new FDI Policy and new Foreign Investment and Technology Transfer Act (FITTA).*

One of the areas of focus for the MOI is attracting foreign investors to Nepal. The private sector and investors have noted the importance of the revision of FDI Policy and FITTA to simplify registration procedures, open up foreign equity participation in various service sectors as per the general and specific commitments made in WTO; and promote technology transfer and legal provisions for incentive packages to attract FDIs. The new Industrial Policy of 2010 called for a new FDI Policy in Nepal and also for the revision of the existing FITTA. In FY 2012 NEAT commissioned an international expert and the Institute for Policy Research and Development (IPRAD) to conduct a review of the current FDI environment in Nepal. This team recommended that all sectors be open to FDI and that minimum equity provisions be reconsidered in the FDI policy. NEAT supported the development of a new FDI policy, the final draft of which was submitted to the MOI for further processing and cabinet approval.

*October 2012-August 2013*

The appointment of a new Joint Secretary in the MOI delayed the progress of the new FDI policy, which was originally to be put forward for approval in January 2013. As directed by the Ministries of Finance, Industry, and Commerce and Supply, the MOI organized a mass consultative meeting and widely discussed over the draft Foreign Investment Policy submitted by NEAT. With the inputs and comments received, the MOI is finalizing the draft policy and will initiate the process of approval by the Cabinet this year.

During FY 2013, working closely with the technical committee formed by MOI NEAT subcontractor IPRAD, prepared a draft FITTA bill. The draft bill was finalized after getting feedbacks from five PPDs (four regional and one central level) held by partner CNI. During the PPDs, many important recommendations were received from the private sector. As FITTA was prepared on the assumption that the draft foreign investment policy would be approved as it is, IPRAD also recommended that further consideration be given to the threshold limits of investment by category and issues of outward investment by Nepalese citizens. Any revision on these issues would need to be made in both the draft FDI policy and the draft bill for FITTA. This draft was officially forwarded to the MOI in June 2013 for further processing and approval once the Foreign Investment Policy is adopted.

***Activity 1.1.3: Assist the MOI to introduce an integrated IPR Act and IPR policy and build the capacity of MOI staff.***

Although some amendments have been made to the existing Patent, Design, and Trademark Act of 1965 and the Copyright Act of 2002, to partially comply with the specific WTO requirements under the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement, many legal requirements have yet to be incorporated in the prevailing two Acts and new provisions of Geographic Indications (GI) considered for the full compliance to the Nepal's WTO accession commitment. Furthermore, the Nepalese business and citizens are unable to take advantage of the full benefits of IPR and the current IPR system fails to attract productive foreign investment. The GoN has realized this and through its Industrial Policy, has made commitment to establish an Intellectual Property Protection office to protect and promote all kinds of intellectual property rights (patent, design, and trademark, copyrights, etc), geographical indication etc. NEAT worked with the MOI to formulate a new Intellectual Property Rights (IPR) policy and amend Nepal's IPR legislation in order to comply with requirements of the WTO's TRIPS agreement. The integrated IPR Act will combine the Copyright Act, Trademark Act, and Patent Act. In addition, geographic indications will be included in the policy.

*October 2012-August 2013*

In consultation with MOI officials, NEAT extended its subcontract with PACE Nepal to conduct a two-day IPR training program for 29 participants from the ministries administering IP protection, including high ranking officials from the, MOCS, Ministry of Culture, Copyright Registrar's Office, and Ministry of Law and Justice. Topics included: international standards, requirements, and norms, World Trade Organization (WTO) provisions, and commitments required by international conventions.

In addition NEAT also arranged a five day study tour to Malaysia for a twelve members team led by the Joint Secretary of MOI, with representatives from the Ministry of Law and Justice, Constituent Assembly, Parliamentary Affairs, and the MOCS. The program included a session at the Intellectual Property Corporation of Malaysia (MyIPO) to give participants a better understanding of the integrated system of IP protection and management and issues related to enforcement of IP laws and regulations. In addition, the team also visited the Malaysian Investment Development Authority (MIDA) to better understand support services including licensing and incentive monitoring, domestic and foreign investment promotion incentives, and the operation of a one stop resource centre.

NEAT supported the development of a new IPR Policy and submitted the final draft to MOI for further processing and cabinet approval in FY 2013. Given the current political uncertainty, cabinet approval is still pending.

***Activity 1.1.4: Assist the Ministry of Commerce and Supplies (MOCS) to enforce the Competition Promotion and Market Protection Act (CPMPA) and carry out a diagnostic study on service sector regulatory reforms.***

In the initial stage of NEAT, one of the most contentious issues in the private sector was the monopolistic activities of the transport syndicate. The Competition Promotion and Market Protection Act (CPMPA), which was intended to address the monopoly and cartel issues, was ineffective. Thus, NEAT instigated an economic assessment study of the system to quantify its impact on business in Nepal.

NEAT supported the Nepal Economic Forum (NEF) to conduct an economic impact study. To help validate the study and focus attention on the ripple effect the monopoly has on the economy; NEF facilitated an inter-ministerial roundtable discussion in Kathmandu and three PPDs in Hetauda, Biratnagar, and Nepalgunj, inviting related stakeholders including trucker /transport associations, FNCCI, CNI, commodity associations, district level chambers of commerce and industry, local administration, police and government officials. The final report was submitted to Department of Commerce and Supply Management (DoCSM) and MOCS in September 2011.

Several reformative recommendations were made for effective implementation of major laws and addressing the issue of goods transport industries, particularly related to Motor Vehicle Tax Act, CPMPA, and Transport Policy. NEAT submitted the key findings/recommendations of the study to the secretary, who is also the chairperson of the Competition Promotion and Market Protection Board. After the report was submitted the Supreme Court ruled to stop the syndicate system and some issues have been resolved. However, unofficial syndicate activity continued.

In Year 2, NEAT continue to support the GON and private sector stakeholders to address some of the critical issues related to transport monopoly, particularly focusing on the implementation requirements of the CPMPA. NEAT agreed to provide technical assistance to the DoCSM to prepare working guidelines for the implementation of the CPMPA and train enforcement officers. The DoCSM emphasized the need for the enforcement officers to have a full understanding of the technicalities involved and have clarity on their role.

#### *October 2012-August 2013*

In FY 2013, with the Department of Commerce and Supply Management, NEAT subcontractor South Asia Watch on Trade, Economics and Environment SAWTEE finalized the draft guidelines for implementation of the CPMPA. NEAT officially forwarded the final draft to the department, which is initiating necessary actions for formal adoption. The guidelines will help to address unfair competition and combat cartel operations. In addition, so that the technical guidelines will have legal validity and gain endorsement from the Cabinet, SAWTEE prepared the guidelines in the proper legal format. NEAT forwarded the draft guidelines to the Director General, DOCSM in March 2013.

The guidelines included the following aspects to facilitate the authorities in performing their tasks while enforcement of the CPMPA:

- Relevant Information on Action against anti-competitive practices
- Explanation of the terms used in course of implementation of law
- Responsibilities of the authorities (Board, CDO, Department of Commerce and Supply Management, market protection /inspection officers)
- Monitoring of restrictive business practices and action processes
- Conducting public awareness programs

To build the capacity of enforcement officials and key stakeholders on the use/application of the guidelines, NEAT organized training programs on the guidelines. NEAT supported the Department of Commerce and Supply Management and SAWTEE in organizing two training programs for enforcement officials and key stakeholders. The residential training programs were attended by 30 officers from 29 districts and 12 officials from Katmandu.

Also, as part of accession to the WTO, Nepal committed to liberalizing 17 categories and 61 sub-categories of service trade with conditions related to market access limits, protection of domestic suppliers and state obligations. As the terms and conditions in the commitments are not understood by relevant government agencies responsible for regulations and the private sector, there has been confusion on how to interpret the conditions. The MOCS requested NEAT's assistance in preparing and publishing a simplified document (Reference Booklet) which could be clearly understood by all responsible agencies. After a series of four small stakeholders meetings, NEAT prepared a final draft of a reference booklet on WTO Accession: Service Sector Commitments of Nepal, and submitted the draft to MOCS for endorsement and publication.

Promoting an expansion of trade in services is a good economic strategy for the GoN. Nepal has the potential to be competitive in some service trade areas, provided certain policy and regulatory reforms are implemented. The MOCS has recognized the need for focusing attention on the service sectors identified under the Nepal Trade Integration Strategy 2010 and identifying potential subsectors for which to promote export. In addition, the eighth Ministerial Conference of the WTO held in 2011 adopted a waiver to enable developed and developing countries to provide preferential treatment to services and service suppliers of least developing countries (LDC) such as Nepal, which will allow them to promote their trade in selected sectors. All LDCs including Nepal need to present their sectors of interest, including GATS modes and waiver requests, for considerations in the ninth ministerial conference of the WTO in November 2013.

For this purpose, the MOCS has requested that NEAT provide technical support for a rapid diagnostic study to identify and analyze subsectors under five of the key service sectors identified by NTIS 2010. The key sectors indicated are: labor, tourism, information and communications technology (ICT), health, and education. Given the limited time remaining for the program, NEAT in consultation with the MOCS Joint Secretary, limited the number of subsectors to be analyzed to seven.

NEAT subcontractor SAWTEE has conducted detailed studies of the sub-sectors/segments within the broad sectors and prepared a report identifying potential markets and trading partners, suggesting the reforms needed in domestic regulations for each subsector, identifying GAT service modes, and proposing appropriate service waivers to be negotiated with the potential trading partners. In FY 2013 the study of seven sectors was completed.

***Activity 1.1.5: Draft Contract Farming Law as an amendment to the Contract Act or a separate law on contract farming.***

Although some contract farming exists in Nepal, there has been minimal oversight, and due to an absence of legal and regulating mechanisms, breach of contract by both producers and buyers has been common. As a result, export-oriented production has suffered due to failures in meeting quality and quantity commitments. To address this, NEAT is completing the draft of an Agribusiness Promotion Act to provide a legal framework for contract farming as well as for promotion of commercial agriculture in Nepal. In FY 2012, NEAT supported two PPDS to gather feedback on the draft act.

*October 2012 to August 2013*

In October, 2012, NEAT organized a study visit for nine officials to the Indian states of Punjab and Haryana, where contract farming is gaining popularity. The visit was led by the joint secretary of the Planning Division of MOAD. Information gathered on this trip had helped the MOAD review team and consulting firm ABTRACO in making its final recommendations on the legal drafting of the Agribusiness Promotion Act particularly in relation to the most important aspects to be considerations in contract farming legislation, if it is to be successful and effective. Some important aspects are:

- Demonstrating that contract farming is feasible only if there is the prospect of land consolidation for reaching economies of scale. Thus, provisions for land leasing have been incorporated into the draft act.
- Illustrating that a contract farming system is viable for high value crops. As a result provisions for incentives to produce high value crops have been included into the draft act.
- Showing that crop insurance should not be compulsory but should instead be left for the parties to agree as it is difficult to gather reliable information on weather based insurance. Thus, such clauses have been omitted from the final draft.
- Explaining that the legal process should be short and simple so as not to overburden farmers and the contracting entrepreneurs and to encourage them to continue the relationships. As a result the process been simplified.

NEAT formally submitted the draft Agribusiness Promotion Act to MOAD for its consideration in January 2013. The MOAD has initiated the formal consultation process for approval.

*Activity 1.1.6: Revise the national seed policy and amend the seed regulation.*

One of the WTO requirements includes a change in the Seed Act and Regulation. The GON put in place a revised Seed Act which stated that a Seed Regulation would be implemented in the future. NEAT agreed to support the GON in drafting the new regulation in order to meet the WTO requirement. In FY 2012, NEAT supported the development and discussion of a draft procedure for seed registration, as well as draft guidelines for fixing compensation for damage caused by sales of unregistered seeds.

*October 2012-August 2013*

The Seed Regulation was approved by the Cabinet in January. The work completed by NEAT and the Seed Entrepreneur's Association of Nepal (SEAN) on seed compensation guidelines is embedded within the regulation. Following the approval of the regulation, SEAN began advocacy activities with the National Seed Board to initiate the process of adopting the draft Seed Registration Procedure.

*Activity 1.1.7: Fertilizer demand survey and policy recommendations*

NEAT is contributed to the GON/MOAD development of a new Agriculture Development Strategy (ADS) by analyzing fertilizer demand and distribution channels in Nepal and developing draft policy recommendations.

*October 2012-August 2013*

Utilizing the assessment report submitted by NEAT, the Agriculture Development Strategy (ADS) team developed a fertilizer sector strategy, and included this strategy in the draft ADS. A consultative meeting was held in March 2013 to finalize the draft ADS.

### *Activity 1.1.8: Agriculture Mechanization Policy*

The combination of a reduced agriculture labor force due to overseas migration, the high cost of mechanizing, and the difficulty in accessing or utilizing mechanization in the hills and remote regions of Nepal due to fragmented land led the MOAD to draft an Agriculture Mechanization Policy in 2012. MOAD sought NEAT's technical support to finalize the draft in FY 2013 Q1. This is a new activity that was added after the submission of the NEAT FY2013 work plan.

#### *October 2012-August 2013*

The Agriculture Enterprise Center (AEC) applied for a grant to support the MOAD in developing an Agriculture Mechanization Policy through a series of technical and consultative meetings and PPDs. The MOAD review committee and AEC began working together to revise and finalize the draft policy. Four meetings of the Agriculture-related Policy, Act and Regulations Review and Suggestion Committee formed by MOAD and four PPDs attended by farmers groups, cooperatives, commodity associations, agricultural machinery/equipment manufacturers and traders and government agencies. Some of the noteworthy policy recommendations included are:

- Promote power driven mechanization in the Terai
- Increase involvement of private sector in the identification of appropriate machineries/equipments, R&D , production, and services,
- Consider fiscal incentives for the purchase of the recommended machinery/equipments

In addition, at the request of the APARRSC, who is responsible for drafting the policy, NEAT arranged a study visit to Bangladesh. The team met stakeholders from the manufacturing industry and trading association, government, research and development, and extension organizations. Some of the lessons learned include the need for private sector led mechanization and networking of machinery dealers to secure the availability of spares parts and after-sales services. Incorporating important comments and suggestions received from PPDs and lessons learned from the study tour the APARRSC finalized the draft Agricultural Mechanization Policy and forwarded to MOAD in May 2013. The MOAD has initiated action on approval process by seeking final opinions from the stakeholder ministries so that the draft policy may be forwarded for the Cabinet's approval. It is expected that the MOAD will obtain approval this year.

### **Sub-IR 1.2: Advocacy, Networking, and Distribution of Information Improved to Facilitate Business Growth**

#### *Activity 1.2.1: Enhance the capacity of business and trade associations in advocacy and research.*

To ensure responsiveness of the GON to concerns of the private sector, a systematic feedback loop is required. NEAT helped to strengthen the relationship between the public and private sector through structured public-private dialogue events involving key stakeholders and enhancing the capacity of business organizations in policy research, analysis, and advocacy. Competitive grants were awarded to four organizations to host PPDS, to establish advocacy programs, and to undertake research activities. Illustrative examples of NEAT's support to these organizations include:

- A grant to the Seed Entrepreneurs' Association of Nepal (SEAN) to address Nepal's national seed policies, particularly the overly-complicated seed regulations that hindered growth of the seed market in Nepal.
- NEAT's support to FNCCI in organizing PPDs on draft IEA, draft Foreign Investment Policy and draft IER.
- NEAT worked with the Agro Enterprise Centre (AEC/FNCCI) to host PPDs on the Agribusiness Promotion Act and Agriculture Mechanization Policy and to support the MOAD in the drafting of the of Agricultural Mechanization Policy.

Other examples from FY2013 are highlighted below.

#### *October 2012-August 2013*

The FNCCI Business Confidence Survey was launched in November 2012. This survey was the first of its kind to be conducted in Nepal, and it will be an invaluable tool for members of the business community, policy makers, and current and potential investors to understand the private sector's perception of the country's investment climate and gauge the direction of the economy. As a follow-up activity and to further enhance the institutional capacity of FNCCI to measure the confidence level of the private sector, NEAT provided additional grant to FNCCI to publish the second issue of the Business Confidence. FNCCI completed second FNCCI Business Confidence Survey and analysis work and published the second issue of the Business Confidence Survey Report in June 2013.

In May and June 2013 NEAT supported FNCCI to facilitate two PPDs on a Commercial Disputes Mechanism in Nepal, which they organized jointly with the Supreme Court. The general objective of the program was to consult stakeholders on establishing a speedy justice mechanism regarding commercial disputes. Specific objectives of the program were to:

- Discuss existing provisions for commercial dispute settlement in Nepal,
- Collect suggestions for appropriate mechanisms to settle commercial disputes, and
- Generate appropriate recommendations for concerned agencies for necessary actions.

After incorporating comments on the paper from these PPDs the final paper on commercial disputes was submitted to the GON for consideration.

In addition, CNI facilitated five PPDs on the FITTA draft, which was prepared by IPRAD, in April and May 2013. Recommendations from the PPDs were submitted to the MOI.

In April to June 2013 FNCCI hosted six PPDs on the draft IER, prepared by NEAT subcontractor PACE Nepal. The final report of the PPD results has been submitted and PACE Nepal and the technical committee if MOI are incorporating feedback into the final draft of the IER.

***Activity 1.2.2: Support the launch of an "information portal" targeted to potential foreign investors.***

#### *October 2012-August 2013*

NEAT provided technical and grant support to the CNI to jointly host an internet portal with the MOI. The information portal <http://www.investnepal.gov.np> launched in November 2012, targeted current and potential foreign investors with information on opportunities, policies, and procedures related to establishing a foreign owned entity in Nepal, incentives, support agencies and expected labor and tax implications. NEAT continued to provide operational support for the program through March 2013.

CNI maintains and updates the information portal in order to keep it current. CNI monitors the IP through web statistics which are regularly maintained. A five-day follow-up training course on Operation and Maintenance of IP was conducted by two trainers in February for five CNI staff members. The portal was visited by more than 10,400 people from 43 different countries. CNI and MOI will continue the maintenance and operation of the portal moving forward.

### **Sub-IR 1.3: Trade policy and practices improved**

*Activity 1.3.1: Build the trade negotiation capacity of the Government of Nepal and MOCS.*

NEAT provided support for the Nepal Trade Integration Strategy (NTIS) 2010 objective that aimed to strengthen trade negotiation capacity of the GON. Specifically NEAT activities focused on the (i) identification of critical trade issues based on detailed studies and conducting PPDs on trade with India, China and within SAFTA and SATIS; (ii) developing training packages and programs on the international trading system, trade data analysis system and trade negotiating techniques; and (iii) the establishment of a separate Export Import Data Bank portal of TEPC. Activities include:

In the previous year an International Trade Expert prepared a document on the future strategies of Nepal for the TIFA talk with the US Government. The draft document was discussed at a PPD and final report was submitted to the MOCS. The MOCS is considering implementing some of the recommendations before the TIFA Council meeting.

In addition the Nepal- India study recommend incorporating numerous issues into the negotiating agenda such as increasing the number of quarantine facilities and food testing laboratories at border points or accepting third party certification; providing reciprocal treatment to Nepalese transporters, permitting their access to Indian territory; and providing exceptions for goods intended for use in the agriculture, manufacturing, and service sectors.

The Nepal-China study recommended that negotiations include developing Nepal as a transit link between China and India through infrastructure development; improving payment modalities by working with the Bank of China and Nepal Rastra Bank; drafting a separate agreement to address quarantine and quality assurance for plants, agricultural items, and food items; and addressing piracy and counterfeit trade. These recommendations have been validated by the Nepalese government and private sector and will be considered in upcoming negotiations.

In addition, NEAT partnered with the Ministry of Commerce and Supplies to assess trade prospects through the South Asian Free Trade Area (SAFTA) and the South Asian Association for Regional Cooperation (SAARC) Agreement on Trade in Services (SATIS). The assessment, prepared by SAWTEE in consultation with government and the private sector, recommended that the negotiating strategy and agenda should include removing Nepal's high-potential export products from other members' lists of sensitive items; harmonizing customs documentation and procedures; and establishing regional transit and transshipment facilities.

NEAT supported the Export Import Data Bank on the Trade and Export Promotion Centre (TEPC) webpage ([www.tepc.gov.np](http://www.tepc.gov.np)). The site has received more than 10,000 hits since it has

become operational. In the past, one of the major constraints facing Nepal's trade negotiators was the lack of reliable, up-to-date information. This placed Nepali officials at a severe disadvantage when conducting trade negotiations. Through this activity, high-quality, current trade data is now easily accessible.

*October 2012-August 2013*

Early in FY 2013, NEAT conducted a training program to enhance the trade negotiating techniques of GON negotiators, which is a specific objective of the Nepal Trade Integration Strategy (NTIS). NEAT engaged Alicia Greenidge, former USTR Trade Negotiator, to design and conduct a three-day training course on international trade negotiations for officials from the Ministry of Commerce and Supplies (MOCS) and other GON officials working in the international trade sector. The 35 participants covered topics relating to the trade, transit, and investment aspects of bilateral agreements, regional agreements such as SAFTA and SAARC, and the World Trade Organization. Ms. Greenidge designed an interactive trade negotiation simulation to engage participants in learning and dialogue about practical issues. Two simulations involved an initial trade negotiation meeting with a developed country on preferential market access for Nepal niche products. The second simulation was a mock regional SAARC Trade in Services (SATIS) market access negotiation. The training also stressed the importance of intra-ministerial cooperation.

In addition to add practical exposure to the training, NEAT organized a field visit for several negotiators, including the Executive Director of the Nepal Intermodal Transport Development Board and the Under Secretary of the Bilateral Trade Division, to Delhi, Kolkata, and Bangladesh/India border points, to observe transit customs procedures and study routes and corridors.

The MOCS requested support from NEAT to conduct a transit corridor study for Nepal's transit trade through Bangladesh. This study provided technical information to aid in determining the GON's future transit and trade facilitation strategies and also in developing an agenda for trade negotiations with India and Bangladesh. The NEAT Transit Trade Expert conducted this study and it was submitted to MOCS for comments.

The MOCS will use the studies supported by NEAT to develop agenda for future trade policy formulation and transit trade negotiations purposes.

***Activity 1.3.2: Build the analytical capacity of MOCS staff – develop trade policy research capacity of MOCS.***

*October 2012-August 2013*

To support and strengthen the Trade Policy Analytical Wing (TPAW) of the MOCS, NEAT provided technical assistance, and the NEAT Trade Analysis Expert supported senior GON officials by introduced and built capacity of staff in trade analytical models. In partnership with MOCS, NEAT conducted training programs on international trading systems and trade data analysis.

NEAT provided support for two high level officials to visit Indonesia and Singapore to study trade policy-related regulations and best practices in relation to implementation of the WTO General Agreement on Trade in Services (GATS) and Trade-Related Aspects of Intellectual Property Rights (TRIPS) commitments and to better understand effective ways the government can consult with the private sector on these issues.

***Activity 1.3.3: Improve external trade-related regulations to comply with international standards.***

*October 2012-August 2013*

The Import Export Bill will bring Nepal into compliance with the WTO General Agreement on Tariffs and Trade (GATT). Four PPDS were held on the draft Export Import Bill and the MOCS is preparing to submit this bill to the line ministries by the MOCS to receive technical comments before it is forwarded to the Cabinet for approval.

NEAT sub-contractor after conducting five regional level PPDs completed a feasibility study for the issuance of exporter importer identity code. The Issuance of exporter importer identity codes will enable the government authorities in Nepal and India to electronically inter-exchange data and facilitate speedy movement trade and transit cargoes The DOCom of the MOCS has already started working for the development and operation of a software package to issue exporter importer ID code.

***Activity 1.3.4: Improve the tax payment system by assisting the GON in implementing the Any Branch Banking System (ABBS) for tax payments.***

After consultation with financial institutions, NEAT conducted a study on opportunities for the public sector to improve payment systems through inter-banking, intra-banking, and internet payments. As a result of the cumulative efforts undertaken by NEAT and GON counterparts, in FY 2012 the MOF authorized the use of the Any Branch Banking System (ABBS) for large taxpayers. ABBS makes it easier — especially for businesses located outside of Kathmandu — to pay taxes on time. The system was so well received that the IRD and the Ministry of Finance plan to roll it out to all taxpayers. Expanding ABBS to the public will increase compliance and create additional revenue while reducing the administrative burden of paying taxes.

*October 2012-August 2013*

The Nepal Rastra Bank has given instruction to the Banks like Everest Bank, Nepal Bank Limited and Rastriya Baniya Bank to implement ABBS for tax payments for the large tax payers. As a result currently most of the large tax payers outside the Kathmandu valley are using ABBS and they are not required to travel to Kathmandu several times a year for tax payment at the Large Tax Payer's Office.

The IRD and the MOF have expressed their interest in rolling ABBS out to all tax payers and are discussing the process and schedule for doing so.

***Activity 1.3.5: Initiate a live version of the data link between the IRD and the Office of the Company Registrar (OCR).***

NEAT designed and installed a data link between the IRD and the OCR that enabled the OCR to issue a PAN number at the time of company registration and made it possible for the IRD to search the OCR database for noncompliant companies and taxpayers. Using this data link as a model, the IRD director general plans to initiate similar data links with other government agencies.

*October 2012-August 2013*

The link between the IRD and the Office of the Company Registrar is fully established. NEAT sub-contractor CPPD has finalized and submitted the final report on the Feasibility of Establishing Data Links between IRD and four selected agencies: the Land Registration Office, Metropolitan Offices, Nepal Rastra Bank (NRB), and the Transport Management Department. The data link is increasing the tax base by bringing companies into the tax net.

**Activity 1.3.6:** *Assist IRD staff in applying approved guidelines to active tax cases.*

*October 2012-August 2013*

NEAT previously supported the IRD in developing guidelines for four specialized tax areas: Long-Term Contracts, Permanent Establishment; Transfer Pricing, and Double Taxation Agreements. The GON approved the guidelines for Double Taxation Agreements (DTA). In partnership with the IRD, NEAT conducted a training program for GON officials and stakeholders and a separate workshop for private business groups involved in Long-Term Contracts (LTCs). With the training received from NEAT, it is anticipated that the department will begin applying the guidelines to tax cases in the new Nepali Fiscal year. The IRD is implementing the guidelines on DTA when the GON is required to enter into Double Taxation Avoidance Treaty with any foreign country.

The NEAT advisor and IRD prepared a practical manual on advanced training for the staff of IRD and other government offices on the taxation of LTCs. In partnership with the IRD, NEAT conducted a training program GON officers and stakeholders and a separate workshop for private business groups involved in long term contracts (LTCs). NEAT also supported participation of two senior officers of the IRD in the international conference on transfer pricing organized by Thai Government and International Finance Corporation in Bangkok.

**Activity 1.3.7:** *Strengthen the capacity of the IRD's Research and Revenue Forecasting Unit (RRFU).*

*October 2012-August 2013*

The IRD made the Revenue Research and Forecasting Unit (RRFU) operational with technical support from NEAT's national economist. In addition, NEAT's international economist specializing in revenue developed a training package and conducted training for IRD staff on revenue forecasting in association with NEAT's short-term Nepali economist.

In addition, NEAT provided funding and support for two IRD officials to attend revenue analysis training in the US. NEAT's international economist developed a training package and conducted training for IRD staff on revenue forecasting. The trained Officers together with the NEAT Economist are using their knowledge in analyzing and forecasting government revenues from different sources to support GON budget preparation for fiscal year 2013/14.

**Activity 1.3.8:** *Communicate customs valuation system and support proper use of HS Classification.*

NEAT provided technical support and conducted two workshops on customs valuation. In addition NEAT provided funding for the translation of WTO Customs Valuation Agreement required for the preparation of Customs Valuation Guidelines of the DOC.

NEAT's international customs expert prepared a training manual with training materials and conducted two training events for customs officials on customs valuation. The expert also developed a training manual with training materials on HS of Tariff Classification and trained 35 customs officials. Subsequently local resource people trained in previous sessions conducted four training programs for customs officials outside Kathmandu Valley on a regional basis.

*October 2012- August 2013*

A national workshop on customs Valuation, customs O&M and Customs Strategic Plan was conducted in Kathmandu from Dec 23-26, 2012. This workshop was attended by the 80 ministry of finance and customs officers.

Five volumes of HS Explanatory notes, written in Nepali, were printed in January and presented on January 26, 2013 World Customs Day, to the Minister of Finance. The notes have been disseminated to all customs offices throughout the country for the use of clarification, interpretation, and understanding of the products and harmonized code numbers. This will result in increased accuracy of declarations and increased revenue for the GON. In addition, a training course on customs valuation was conducted in Kakarvitta for customs, IRD, and Department of Revenue Investigation (DRI) officials.

***Activity 1.3.9: Strengthen the post-clearance audit (PCA) system.***

NEAT's custom's consultant prepared a manual and provided training on post-clearance audit. The PCA procedures have been translated into Nepali. In addition, NEAT international custom expert prepared training materials on risk management procedures and conducted a workshop for customs officers. The department of customs is now implementing improved and international standard systems for the PCA based on the WTO CVA and Customs Risk Management (CRM) based on the provision and guidelines of World Customs Organization (WCO). The result is an annual increase in the revenue through PCA procedures.

***Activity 1.3.10: Simplify customs procedures and strengthen stakeholders' communication system.***

NEAT supported the DOC in installation of IP Camera with a view to make movements of goods and persons more transparent along the border crossing and customs points at Birgunj, Biratnagar and Tatopani. The MOF and the DOC have direct access to these cameras and can monitor the movements of goods and persons.

NEAT supported the DOC to establish a modern stakeholder communication system. At the Client Service Centre office stakeholders can access information on the 2012 of HS Tariff in Nepali and English, the integrated tariff schedule, and frequently asked questions

*October 2012-August 2013*

The Client Service Centre at the department of customs became fully operational.

NEAT supported a study team of three senior customs officers to examine customs transit procedures along transit routes at boarder areas with Bangladesh and in Kolkata and Tughalakabad, Delhi. Afterwards, the team was able to provide recommendations for simplified transit trade procedures to reduce the cost and time for clearances, as well as

recommendations to strengthen Nepal's position in developing agendas for negotiations with India and Bangladesh for improved transit facilities and simplified procedures. The report of study team was submitted and presented to the representatives of the MOF, MOCS, and private sector institutions

*Activity 1.3.11: Restructuring O&M of the Department of Customs and assessment of customs tariffs structure.*

*October 2012-August 2013*

NEAT's International Customs Tariff Adviser conducted a study on the restructuring of Nepal's customs revenue. A workshop on restructuring customs tariffs was conducted, at which customs officials provided feedback on the draft report. The comments received from the workshop were incorporated in the final report, which NEAT submitted to the MOF and DOC. The final report included recommendations on revenue strategies and restructuring of tariffs.

NEAT's report on customs organization and management (O&M) was finalized and submitted by NEAT subcontractor BRS Neupane & Co to the DOC. The DOC approved the document and began preparation of final documents in Nepali under the format prescribed by the Ministry of General Administration.

NEAT supported the DOC in preparation of the Customs Reform and the Customs Modernization Strategies and Action Plan 2013-17 (CRCMSAP). The MOF has given approval for implementation of this strategy and has started implementation.

*Activity 1.3.12: Revenue Leakage Control Activities with the Department of Revenue Investigation (DRI)*

The Revenue Leakage (control) Regulation was pending for the last 17 years. NEAT supported the DRI in drafting the Revenue Leakage Control Regulation 2070 of the Revenue Leakage (Control) Act.

*October 2012-August 2013*

The MOF approved the Revenue Leakage Investigation and Control Regulation, and forwarded it to the Cabinet's Legal Committee for final approval. In addition, NEAT conducted a regional workshop on revenue awareness and revenue leakage control in Nepalgunj for stakeholders of the western and far-western regions. There were 89 participants representing the GON and the private sector. Also, a three-day training program on customs valuation methodologies and determination of HS Classifications was conducted for officers of the DRI. NEAT conducted two regional workshops on revenue awareness and revenue leakage control. Representatives from the MOF, DRI, IRD, DOC, Armed Police Force, Chambers of Commerce and Industries, and business associations attended.

The Cabinet's Legal Committee is expected to approve the Revenue Leakage Investigation and Control Regulation.

## **B2.PIR 2: Competitiveness of Selected Sectors Increased**

The constraints in the business enabling environment in Nepal have been discussed in the previous section; however, there is also limited willingness of private sector actors to respond to the demands of the regional and global markets. In the given context, the development of agribusiness is limited despite emerging market potential. Based on the findings of the Subsector Selection Report of February 2011, NEAT selected four high-potential export or import substitution sectors (lentil, ginger, orthodox tea, and off-season vegetable) to support under NEAT's Competitiveness Component.

NEAT is supporting households to improve their production practices, business skills, and market access in the ginger, lentil, tea, and vegetable sectors. More than 100 collection centers have been constructed, upgraded, or received capacity building training.

### **Sub IR 2.1: Production, processing, and marketing constraints addressed**

#### *Activity 2.0.1: Strengthen business and marketing skills of FBOs.*

The AgEC tool kit increases the business skills of participants through experiential learning methodologies such as case studies, role plays, and simulations. NEAT and implementing partner Hurdec has increased opportunities for producer-trader interaction. The resulting linkages deepen the understanding of each actor's role in the value chain and build linkages that enable actors to function more competitively.

#### *October 2012-August 2013:*

NEAT partner Human Resource Development Centre (HURDEC) trained a total of 7,247 producers during the life of the project in the AgEC curriculum. 1,504 producers also received a one-day follow-up training session. In addition NEAT provided four training sessions to District Agriculture Development Offices (DADO) from Kathmandu and Chitwan under the Department of Agriculture (DOA). A survey of producers revealed that 85 percent were keeping business records after the training and increase from 25 percent previously.

#### *Activity 2.0.2: Improve access and supply of quality inputs, technical and marketing services.*

#### *October 2012-August 2013*

There are constraints in the value chain between input suppliers, producers, and traders that stem from a lack of trust and a need for further technical capacity building. Input suppliers need additional technical expertise of the products they are selling such as seeds, fertilizers and pesticides. Business and marketing skills are also lacking across the value chain. As a result NEAT supported business skills training and interactive workshops to improve relationships and improve basic business skills. A total of 311 agro-input dealers and 138 traders have now received AgEC training. Of those trained 74 agro-input suppliers are serving in NEAT supported districts, as well as 41 vegetables traders who purchase vegetables from NEAT farmers groups and cooperatives. These trainings established formal relations between input retailers and producers, and provided participants with a deeper understanding of the roles of each actor in the vegetable value chain. This understanding enables them to better meet each other's needs and, as a result, maximize profits and improve cash flow. 84 percent of traders have started providing farmers crates or packaging to reduce

post harvest loss. And 84 percent of input suppliers report that the number of clients they sell to has increased since the training. In addition, following this training, the Para-vet Association of Chitwan requested another training course, which they supported with their own funding.

In response to interest expressed by AgEC participants, NEAT organized 15 interactive sessions reaching 484 producers, agro vets and traders. At these sessions, participants shared information and communicated requirements regarding product quantity, quality, and time of supply. In addition, participants aired grievances from past business transactions and agreed to work more collaboratively in the future. Seeing the benefits of this training, FEFVEN (Federation of Fruits and Vegetables Entrepreneurs of Nepal) officials requested that NEAT provide this training to an additional 50 vegetable traders.

NEAT grantee FORWARD (Forum for Rural Welfare and Agricultural Reform for Development) organized two stakeholder consultative and market linkage meetings with community-based seed producers in order to formalize lentil seed certification and marketing. Currently, only two percent of all lentil seed is estimated to be handled by agro vets, the remainder through informal markets. Additionally, a market linkage meeting was organized between NEAT beneficiary Durga Modern Dal Mill (a processor-exporter) and 37 representatives of FORWARD's lentil-producing farmers' groups from Bardiya, Banke, Dang, Bara, Parsa, Nawalparasi, and Kailali districts. The miller was able to clearly communicate his quality requirements and intention of buying directly from lentil producers if they bulk more than 5 MT at time, and his willingness to provide jute sacks and pickup. At the same time, producers requested that the miller disclose price at the time of purchase and provide immediate cash for payments to their members.

***Activity 2.0.3: Introduce commodity-specific norms and standards.***

NEAT partnered with FEFVEN, ANROPI for lentils, and the Nepal Ginger Producers and Traders Associations (NGPTA) to develop voluntary quality standards for each commodity.

*October 2012-August 2013*

These standards were further adapted as training manuals and posters. NEAT trained farmers, 60 collection center management committee members, and 98 local vegetable collectors and traders in post-harvest handling, volunteer quality standards, and market linkages. NGPTA is organized a training of trainers for their local resource persons in 2013, so that they can continue to carry out the voluntary standards training after the project has ended.

**Sub-IR 2.1: Production, Processing, and Marketing Constraints Addressed**

**Sub-IR 2.2: Linkages between Lead Firms, SMEs, and Microenterprises Strengthened**

***Lentils***

***Activity 2.1.1: Promote the implementation of good agricultural practices (GAPs) through demonstration sites for lentils.***

***Activity 2.1.2: Introduce and expand bulk collection and sorting/grading for lentils.***

***Activity 2.1.3: Foster market linkages between producers, traders, processors and end markets for lentils.***

Lentil is Nepal's number one agriculture export, yet the country's 700,000 lentil farmers are smallholders who do not use modern production and post-harvest practices, resulting in low productivity, post-harvest losses that can top 20 percent, and low profitability. When India placed tighter restrictions on lentil exports, Nepal gained an opportunity to fill the gap by entering new markets and expanding the quantity of lentil exported to existing markets, such as Bangladesh, which recently agreed to provide duty-free access to its market.

To expand productivity and profitability, NEAT partnered with FORWARD Nepal, an NGO dedicated to reducing poverty by improving food security, to build the capacity and knowledge of farmers through training, demonstration plots, and introduction of better varieties and processes. Assistance was provided in three areas: production and value addition, processing, and marketing.

To reach the maximum number of lentil farmers, NEAT identified motivated farmers who could be trained to provide training to neighboring farmers side by side with project field technicians. More than 60 farmer-trainers received five days of training in group management, improved production and processing technologies, marketing, planning, and monitoring and evaluation. Next, the team identified village development committees (VDCs) — small villages within larger districts — where farmers located near large lentil processors, millers, and traders were eager to expand lentil production. In each district, three lentil clusters were selected for commercial block production. Using this strategy, FORWARD built the capacity of 17,030 households in good agricultural practices by establishing demonstration plots, increasing access to improved varieties, and grading lentil by sieving. Between 2011 and 2013, lentil yield increased by 50 percent and farmer sales by more than \$4.5 million. The share of farmers using improved seed increased from 4.4 percent to 92 percent, and the area under lentil cultivation increased by 25 percent over the baseline.

To increase exports, the project partnered with Durga Dal Mill to modernize their machinery to include color sorting, which increased export capability from 1,120 metric tons to as much as 3,500 metric tons. FORWARD brought lentil traders and producers together from 11 districts to discuss how to improve quality and took producers to a factory to observe quality checks. Today, 95 percent of farmers supported by FORWARD are grading, sorting, and cleaning their lentil before they sell to the market. Knowing what quality grades get what price ensures transparency, builds trust, and helps farmers increase sales.

Farmers' reluctance to combine their lentil crop with their neighbors' crop left them at the mercy of small traders. NEAT supported the construction of seven bulk collection facilities for lentil, organized 32 cluster-level collective marketing meetings, and facilitated 11 collective marketing initiatives with the participation of more than 300 farmer groups. As a result, farmer groups are selling in bulk at a premium to processors or traders who are willing to pay a higher price. Approximately 7,300 farmers now sell directly to firms, or to district or regional traders, rather than village traders. In addition to improving market access for lentil producers, NEAT provided current market intelligence on the Bangladesh market and other emerging markets to ANROPI and its members

## ***Tea***

***Activity 2.1.4: Increase productivity and improve quality of tea green leaf at field level.***

***Activity 2.1.5: Introduce specialty tea processing technology.***

Tea is an emerging product in Nepal. However, most tea from Nepal is sold in bulk to India, where it is processed, packaged, and sold to European markets. NEAT assistance focused on increasing productivity, improving quality, and raising brand visibility.

Many Nepalese tea farmers must travel for hours on foot carrying hand-picked leaves to a pick-up location on a roadside or a storage structure with dirt floors. The extensive travel and inferior storage practices degrade the quality of tea, affecting its price in end markets.

To address this challenge, NEAT partnered with Nepal Small Tea Producers Limited (NESTPROL), Kanchanjangha Tea Estate, Himalayan Shangri-la Tea Producers, Gorkha Tea, and Hariyali Jabik tea factories in Ilam to construct 22 collection centers, each tied to a farmer group in a specific area. The collection center staff, paid from farmer fees, grade the tea by type and quality, weigh it, and spread the leaves out on a clean surface to avoid fermentation while they wait for factory pick-up. NEAT trained collection center staff on how to manage members and fees and strengthen business relationships.

Today, more than 1,000 farmers come to these collection centers daily with their tea leaves. For many farmers, the collection centers cut the travel distance by more than half, and because the quality of the tea leaf is now much better, farmers typically earn a premium of 15 percent or more. The collection centers have helped not only the farmers, but also the processing firms. Firms are receiving higher-quality tea and increasing profits as a result.

Bagging and drying. Tea from Nepal is often processed in India and sold as “Darjeeling” tea. To increase value addition and attract European buyers willing to pay higher prices, NEAT provided a grant to Shangri-La Agro World (SAW), an agricultural processing and export company, to cost-share the purchase of a pyramid tea bagging machine, the first of its kind in Nepal. Triangular bagging produces premium sachets of tea that fetch a high price in European markets. Marketing training and linkage support helped the company send samples to France, Germany, Qatar, Switzerland, Ukraine, and the United Kingdom. SAW has sold tea to clients in the United States and Japan and continues to look for new markets.

NEAT also provided a grant to install a tea dryer at the organic Kanchanjangha Tea Estate. The tea dryer, which meets internationally accepted standards for export, stops oxidation at its optimum point and then reduces the moisture content of the tea to 2.5- 3.5 percent, at which point the tea will retain its quality.

Nepalese tea has significant potential to penetrate the U.S. and European markets if the number of organic certified producers increases to meet the growing demand for organic tea. Even to continue to supply India and other non-European markets, farmers will have to manage pesticide use more carefully after banned pesticides were recently detected in Nepalese tea exports. New Indian food safety laws mandate that from January 2014, tea exports must undergo laboratory testing to meet rigorous pesticide standards.

To promote organic tea sales and meet market requirements, NEAT’s approach was threefold: (i) assist farmers who are certified or in the process of obtaining certification to renew or advance their status, (ii) assist farmers who are producing organic but not seeking certification to begin the process, and (iii) provide integrated pest management training to help farmers who are selling non-organic tea manage pesticide use. Through this approach, more farmers began converting to organic farming and obtained organic certification. Farmers supplying partner tea companies were trained in integrated pest management, vermin

compost technology, management of cowsheds, and improved pruning and plucking techniques.

The conversion to organic farming can be a lengthy process and requires strong farmer commitment. With support and training from project grantees, 229 tea farmers earned organic certification from the National Association for Sustainable Agriculture Australia (NASAA) for the first time. The agency's strict standards include extensive orientation, detailed recordkeeping at the farm level, and an internal control system within each farming group. NEAT also helped more than 1,137 farmers producing organic tea for three factories renew their organic certification. Another 107 farmers are in the conversion process.

Building a strong brand around Nepalese tea to catch the attention of potential buyers requires producing consistently high-quality tea. NEAT helped partners improve product quality and build strong domestic and international linkages by marketing a national brand. The approach replaced outdated marketing efforts and contributed to a push for greater visibility throughout the sector. As a result, farmer tea sales increased by more than \$1.2 million and were expected to increase by another \$800,000 by the end of the 2013 season.

As part of the effort to increase visibility for tea from Nepal, NEAT assisted the Himalayan Orthodox Tea Producers Cooperative (HIMCOOP) with creating promotional materials and organizing a booth at the Tea and Coffee World Cup in Vienna, Austria, in March 2012 and at the World Tea Expo in Las Vegas, Nevada, in 2011, 2012, and 2013. As a result, HIMCOOP tea export sales to all countries except India increased in volume by 20 percent. Halseen and Lyon Tea of Germany and U.S. firm the Tao of Tea, which previously purchased small quantities of tea from private Nepalese firms, now plan to purchase tea from HIMCOOP so they can source high volumes, guarantee quality, and purchase a wider variety of Nepalese tea. HIMCOOP is preparing to ship samples to other interested buyers they met during their marketing trips.

To address quality, NEAT supported orthodox tea productivity and green leaf quality improvement through training in tea garden management, organic production, safe pesticide use, and improved production practices. The project partnered with cooperatives and processing firms to train more than 6,500 households in best practices for production and harvesting.

### ***Ginger***

***Activity 2.1.6: Promote the implementation of GAPs for ginger.***

***Activity 2.1.7: Introduce and expand bulk collection and sorting/grading methods for ginger.***

***Activity 2.1.8: Promote improved processing techniques for ginger.***

***Activity 2.1.9: Foster market linkages between producers, traders, processors, and end markets for ginger.***

Nepal is the third-largest ginger producer in the world after India and China but ranks 11th in earnings from ginger. More than 75,000 Nepalese ginger farmers in the east, west, and midwest regions suffer from low productivity, post-harvest losses, and a disorganized market dominated by mid-level actors. In addition, 80 percent of fresh ginger produced in Nepal is sent, unclean and unsorted, to market-savvy Indian wholesalers at rock bottom prices.

NEAT analyzed the market and saw significant potential for farmers to improve production and processing and secure higher prices. The project organized ginger assistance into three areas: production, processing and value addition, and market linkages.

*Production.* Ginger farmers experience low productivity due to poor production technologies and disease. Local partners Multidimensional Agriculture for Development, Public Progress Social Development Center, and the Forum for People’s Awareness worked to improve the production practices of approximately 9,000 farmers in midwestern Nepal by promoting high-quality seed production, improving disease management, introducing new harvesting techniques, and training ginger collectors on quality standards. When partner Annapurna Organic Agriculture Industries (AOAI) needed organic ginger for processing, project partners trained 3,000 ginger farmers on good agricultural practices for growing organic ginger. AOAI trained farmers on how to implement an internal control system for organic certification.

*Processing and value addition.* Processing and value addition were identified as key areas to promote ginger market growth. Activities in this area included the following:

- Working through three local partners, producers received assistance in drying and processing, packaging in crates to maintain quality, and low-cost storage construction so they would not be forced to sell at the bottom of the market.
- Partner Khaptar Aroma introduced ginger oil production by establishing a washing station, a distillation unit, and a larger storage facility. Production from the first season was sold to buyers in the United States, France, and Switzerland.
- AOAI was initially unable to meet market demand from existing buyers because they didn’t have a large enough processing facility. With a grant from NEAT, AOAI established a new ginger processing center in Kapilvastu district, the first of its kind in Nepal. The new facility has a ginger washing station with a 10,000-metric-ton capacity per season, as well as peeling, slicing, and drying facilities. In the first full season of operation, AOAI processed 1,000 metric tons.

*Market linkages and contract farming.* Through local partners, NEAT facilitated market links at the farmer group level by organizing producer-buyer meetings. To ensure they would meet their market commitments for processed ginger, partner Annapurna entered into contract farming arrangements with more than 3,000 ginger farmers for organic production. This provided farmers with a ready market and earned them a 15 percent premium over the prevailing market price. As a result, Annapurna expanded from 25 to 90 employees, and processing increased from 100 metric tons to 1,000 metric tons last year. Sales of the 9,000 project-supported farmers increased by more than \$2,153,000.

### ***Off-Season Vegetables***

***Activity 2.1.10:*** Promote the implementation of GAPs for selected vegetable crops.

***Activity 2.1.11:*** Introduce and expand bulk collection and sorting/grading techniques for selected vegetables.

***Activity 2.1.12:*** Foster market linkages between producers, traders, processors, and end markets for selected vegetables.

Nepal’s vegetable producers are often unaware of the extent of market demand or quality standards. Even traders lack knowledge about pricing systems based on sorted, graded, and well-packaged products. Also, vegetable productivity is often low due to a lack of irrigation, limited use of high-quality inputs and services, and insufficient knowledge or use of improved farming practices and technology.

NEAT addressed these issues and increased the competitiveness of more than 20 vegetables, including onion, chili, and tomato (chosen for their high import substitution and export value). Support was provided in three areas: technical assistance and training on good agricultural practices; introduction and expansion of bulk collection, sorting, and grading; and fostering market linkages between producers, traders, processors, and end markets.

Demand for vegetables is high year-round, especially in urban centers. There is also significant potential for import substitution, price premiums, and vegetable exports in the off season. NEAT worked with producers linked to the Kathmandu, Butwal, Kohalpur, and Ghorai markets and in collection centers in 20 districts to increase vegetable production with high market potential through five partners: Agribusiness and Trade Promotion Multipurpose Cooperative; Institute for Sustainable Agriculture in Nepal; Kapilvastu Integrated Development Services; Unity Services Cooperation; and Madanpokhara, a vegetable cooperative.

Project partners trained more than 5,459 households to increase vegetable production and quality through better inputs and improved farming practices. Topics included which seeds to use and how to plant them, correct use of fertilizer, composting, and pesticides, grading and packaging techniques, and business skill training. Vegetable sales by NEAT-assisted farmers increased by more than \$2,821,000.

A local association partner, the Federation of Fruit and Vegetable Entrepreneurs Nepal (FEFVEN), developed voluntary quality standards for seven vegetables and trained nearly 200 producers in four collection centers in central Nepal. With project support, FEFVEN set up and continues to operate a call system where traders can inquire about the daily price of these vegetables at Kalimati Market from 6 a.m. to 5 p.m. The project constructed 11 vegetable collection centers, upgraded more than 24 centers, and provided collection center management training to staff in 42 centers. These centers ensure proper post-harvest management, provide opportunities for collective marketing, and help link producers and traders.

All project-supported vegetable producers were successfully linked to collection centers, which in turn were linked to traders. Through these linkages, producers and traders are earning higher incomes, and the quality of their produce has improved. Producers and traders received training in good agricultural practices for summer vegetable production, post-harvest handling, quality standards, or packaging and market linkages. As a result, the share of farmers using improved post-harvest practices increased from 20 percent to 80 percent, 80 percent of collection centers are linked to new traders or wholesale markets, and 87 percent of collection centers are linked to new farmer groups.

### **B3.PIR 3: Food Security Enhanced**

Under the food security component, NEAT provided intensive crop or livestock training to 28,708 disadvantaged households- 69 percent of them women- to better their lives and bring about long-term improvements in their food security. NEAT has ensured sustainable impact through four key project activities:

- **Access to Improved Inputs:** with a model that increases farmer investment and decreases project support over time, NEAT developed a sense of ownership among participating farmers in NEAT activities. At the close of the project farmers are

completing the fifth crop cycle. In the fifth cycle, the cost of share of farmers participating in the program reached 100 percent for inputs such as seed and fertilizer.

- **Facilitating Market Linkages:** To support farmers as their financial commitments have increased, NEAT has focused on creating linkages with agro-input suppliers in every community to ensure quality and keep costs down. In addition, NEAT focused on building the collective bargaining skills of farmers so that they are able to secure the best price for their produce.
- **Capacity Building:** NEAT trained 160 Community Agriculture Facilitators (CAFs), local people who are able to share and disseminate NEAT training to other community members. In addition more than 263,000 training materials have been disseminated nationwide.
- **Irrigation:** NEAT has supported 1,204 irrigation schemes in all 14 food security districts. A reliable water supply dramatically decreases the chance for crop failure while also increasing production and quality.

During the latter part of Year 3, NEAT collected sales and productivity data; conducted trainings in group management and strengthening, and organized district level handover workshops.

### Sub-IR 3.1: Agricultural Productivity and Production to Increase Food Security

*Activity 3.1.1: Improve access to quality inputs by strengthening input suppliers.*

*Activity 3.1.2: Promote the implementation of GAPs through wheat production (Terai).*

*Activity 3.1.3: Promote the implementation of GAPs through wheat production (Hills).*

*Activity 3.1.4 and 3.1.5: Promote the implementation of GAPs through rice production (Terai and Hills).*

*Activity 3.1.6: Promote the implementation of GAPs through vegetable production (Terai).*

*Activity 3.1.7: Promote the implementation of GAPs through vegetable production (Hills).*

*Activity 3.1.8 and 3.1.9: Promote the implementation of GAPs through maize production (Hills and Terai).*

NEAT helped subsistence farmers and disadvantaged households boost productivity, product quality, and sales in 14 food-insecure districts through an innovative phased approach, applying hands-on assistance across multiple crop seasons and sharing the cost of improved seeds and other inputs on a declining scale for a small experimental plot on each farmer's land. The model reduced farmers' perception of risks related to planting new crops, using better inputs, and trying new technologies. As farmers gained confidence, they gradually began investing more and needed less project support. Project technical staff encouraged farmers to diversify their crops, and to increase production and productivity in vegetables, key staple crops, and small livestock, thereby addressing the two main determinants of food insecurity in Nepal: low and variable agricultural productivity and limited access

#### Incremental Sales by Food-Insecure Farmers (US Dollars)

Paddy	2,424,328
Wheat	1,111,886
Maize	22,126
Total Staple Crops	3,558,340
Tomato	1,792,598
Cauliflower	2,031,330
Cabbage	1,418,068
Green Chili	1,605,320
Long Bean	1,083,336
Cucumber	935,970
Onion	3,084,604
Total Vegetable Crops	11,951,227
Total NEAT Supported Crops	15,509,567

to food.

The phased approach revolved around five crop seasons. Farmers shared 40 percent of the cost of improved seed and fertilizer in the first production season. By the fifth season, all farmers paid for 100 percent of their inputs. This approach allowed NEAT to track changes in behavior and income throughout the farmers' involvement in the program. It also enabled farmers to access technical assistance while diversifying their crops into high-value vegetables and increasing their investments over time. The project supported farmers making incremental changes and taking calculated risks. Interventions included facilitating access to improved inputs, building farmers' capacity to use good agriculture practices, supporting new irrigation schemes, and facilitating market linkages. Over the assistance period, farmers noticed that new technologies and increased investments were directly linked with higher yield and income. See a detailed breakdown of sales in the table, *Incremental Sales by Food Insecure Farmers*.

Farmers received training from 14 district managers, 80 field technicians, and 160 community agriculture facilitators on critical production practices such as land preparation, nursery management, soil nutrient management, irrigation, integrated pest management, post-harvest handling, and market linkages. Community agriculture facilitators continue to serve as important resources for farming communities after NEAT. At the end of the project, 94 percent of assisted farmers reported being linked to someone in their community who could continue providing agricultural information.

NEAT created sustainable linkages between input suppliers and farmers: 93 percent of farmers say they have access to improved inputs after NEAT. In addition, NEAT has facilitated market linkage workshops in every community between lead farmers and traders, collection centers, or wholesales. As a result 92 percent of farmers report that they have a market to sell their vegetable products after NEAT closes. 67 percent of these farmers report that NEAT has linked them to the market they are currently selling their products.

To stimulate wider interest in new practices, NEAT organized field days involving farmers and other stakeholders before each crop's harvest to demonstrate the superiority of the improved and hybrid varieties coupled with good agricultural practices. With project encouragement, farmers switched some of their land from cereal to vegetable crops. During project implementation, the land area dedicated to vegetable cultivation increased during the monsoon season by 157 percent and during the winter season by 208 percent. This increased their incomes and also improved household nutrition.

In addition to providing technical assistance to help farmers grow more productive, nutritious, and diverse crops, NEAT facilitated sustainable linkages between food-insecure farmers and other key value chain actors, including input suppliers, traders, and microfinance institutions.

To strengthen relationships with farmer groups at the value chain level, the project provided orientation and training to nearly 74 private input suppliers on how to give technical advice to farmers. In the second and third year, training was expanded to include demonstration site activities to increase interaction between input suppliers and farmers and to build marketing, business, agronomic, and veterinary skills. Subsequently, 84 percent of input suppliers reported that the number of clients had increased, 38 percent said existing clients were buying more products, 70 percent said they now talk to farmers in the field about what types of seed

they need, and 52 said they ask farmers how much seed they will need. These input suppliers are now able to provide sound technical advice and recommendations on crop production to their farmer clients in 14 food-insecure districts. More than 90 percent of beneficiary farmers reported having access to improved inputs, up from 21 percent previously.

Farmers were also trained on how to collect market information, respond to market signals, and negotiate with buyers as a group to secure better prices for their produce. Farmers now speak directly with traders and input suppliers about what is in demand, and they decide what to grow based on market trends. Among beneficiary farmers, 92 percent reported having direct market access, and 67 percent said they were linked by NEAT; 78 percent reported being able to influence the price of their products by grading and sorting, improving packaging, or timing sales, up from 11 percent previously.

Farmers who work alone or with just a few family members are unable to develop strong relationships within the value chain or to bargain for a better price based on volume. To address this challenge, NEAT trained district managers, field technicians, and community agriculture facilitators to encourage the formation of new farmer groups and to teach group management skills. Training focused on teamwork, clarifying roles and responsibilities, keeping records, negotiating collectively, using block farming — sharing land to cultivate the same crop —and strengthening linkages to traders and collection centers. Promoting block farming enabled farmers to aggregate their produce to engage in collective bargaining. Because of the larger volume, buyers reported they were more willing to collect the goods and transport them to markets. In total, NEAT helped facilitate 395 block farming schemes in three regions. In all food-insecure districts, 23 percent of farmers are now using collective marketing.

Groups learned the importance of business plans (crop planning) and financial management, how to manage their groups effectively, and how to take advantage of the skills of each member. By the end of the project, 77 percent of farmers were keeping records as a result of the business skills training, up from 4 percent previously. These groups also started their own savings and loans programs: 92 percent reported having access to savings and credit, up from 37 percent previously. Of those participating in a savings and credit program, 84 percent were using their loans for agricultural investments.

Increased resilience to food security shocks and newly acquired business skills, social behaviors, and practices in the home and community transformed lives. Farming is now seen as a viable livelihood option, and some men no longer feel they have to leave their families and migrate for work. Women who lacked confidence and rarely left the house are now running businesses, traveling freely, and assuming leadership roles. They have gained a voice in household decision-making and financial management, and as a result, conflict in households has declined and trust has increased. Families are also investing in education. When families were asked how they were using their increased income, the most frequent answer was to pay for children's schooling. Families are investing more in nutritious food, such as vegetables and dairy products, because they have seen that other families' children are healthier when they eat well. More households are taking a longer-term approach to planning and investments, a change from previous survivalist attitudes.

***Activity 3.1.10: Deliver technical training on crop productivity enhancement through improved composting techniques.***

All NEAT farmers received training in compost making techniques, all farmer groups have at least one demonstration plot, and all farmers have compost pits. NEAT farmers are continuing the construction of pits for making high-quality compost and sharing the information among other members of their communities. This includes demonstrations for pit digging, compiling of crop residues, and sealing with plastic sheets.

*Activity 3.1.11: Provide irrigation systems to farmer groups.*

NEAT has completed 1,204 irrigation schemes in 14 districts for NEAT beneficiaries. These irrigation schemes cover more than 2,568 hectares.

### **Livestock**

*Activity 3.1.12: Promote small-scale livestock production of rural poultry.*

*Activity 3.1.13: Promote small-scale livestock production of pigs.*

*Activity 3.1.14: Promote small-scale livestock production of goats.*

Rising food prices — particularly for grains, vegetables, poultry, dairy, and meat products — have increased food insecurity among the poorest and most vulnerable. Recognizing that livestock production, especially for landless farmers, could increase incomes and household consumption of nutritious food products, NEAT’s livestock management program engaged food-insecure households in raising poultry, goats, or pigs. Animals and training were provided under a cost-share arrangement, with the beneficiary providing animal housing, food, and vaccinations. In total, NEAT supported more than 1,500 households in the livestock program. The full value of livestock consumed, sold, and remaining is more than \$450,000. With remaining livestock, these households will continue to generate income from their investments in livestock.

In addition, NEAT grantee Heifer Project Nepal has successfully formed 13 “Pass on the Gift” groups from its original 13 beneficiary groups, and all 325 new members received training in Improved Animal Management. The original Heifer groups have begun to “pass on” their livestock and this process will continue after NEAT.

### **Sub-IR 3.2 Agricultural Innovations Developed and Disseminated**

*Activity 3.2.1: Facilitate the dissemination of new technologies from research and development organizations*

Data was collected from 80 field trials conducted by NARC and SEAN Seed Service Centre (SSSC), a private sector seed company for rice, maize and vegetables. As a result of NEAT’s support SSC has recognized an opportunity to enter a new and profitable line of business: hybrid seed from Nepal. Local production of hybrid seeds reduces reliance on imports, creates a new Nepali industry, and generates an income stream for seed-producing farmers, often located in remote areas of the country. With project support, SSSC selected crops for which seed was being imported in large quantities and for which new hybrid varieties had already undergone testing by the National Agricultural research Council (NARC). SSSC evaluated which geographical areas would be best suited for producing each type of seed and then entered into a contract arrangement with farmers to produce seed for the company. SSSC provided training to farmers, who were enthusiastic about getting into the seed production business. The program guaranteed farmers a 100-percent buyback and provided the technology and support needed to enter this new business. Successful trials with commercial production of hybrid and improved seed have

produced 50 MT of seeds to sell in the local market, including 12.6 MT of hybrid maize and 3.35 kg of tomato seeds.

In particular, SSSC trials showed significant success with, and potential for, a new local hybrid maize variety. As a result, SSSC piloted a “hybrid maize village” in 2013, contracting 29 farmers to produce hybrid maize seed, improving the livelihoods of the farmers involved and guaranteeing the supply of a new seed variety in growing demand in the market. SSSC anticipates they will be able to increase the domestic supply of commercial hybrid maize seed by 50 percent within the next twelve months.

#### **B4. PIR 4: Access to Microfinance Services Increased**

The key objective of the microfinance component is to enhance access to financial services in the un-served and under-served areas of Nepal, particularly supporting NEAT beneficiary families. NEAT has leveraged opportunities in the sector by bringing stakeholders together for dialogues, focusing on innovation, and through building relationships with key stakeholders.

NEAT partners have disbursed \$3,992,430 USD in loans to 10,429 borrowers- exceeding both project targets. More than 20,000 clients now have access to formal financial services through bank branches or mobile financial services. In addition, seven microfinance innovations- including housing loans, mobile money, and savings products- are currently being implemented by four project partners.

In Year 3, NEAT supported the scaling up of microfinance and mobile financial services activities, and built the capacity of program partners to ensure that they have the ability to continue activities initiated with NEAT’s support. NEAT supported Laxmi Bank and its consortium partners in developing a three-year business plan to expand their businesses and make mobile banking fully interoperable and sustainable. There is significant interest in mobile money in Nepal. As the project closes, FinAccess the company that developed the mobile platform used by Laxmi Bank double the capital of the company incorporating as investors

- Kantipur Group, Nepal’s largest media group;
- Prabhu Group, Nepal’s second largest remittance company;
- Buddha Air, Nepal’s largest airline; Agni Inc, distributor of Mahindra automobiles and tractors; and
- Mr. Jiba Lamichhane, President of the Non Resident Nepalese Association.

FinAccess now has the capital and strategic partners required to ensure the success of its plans to rapidly scale-up its services.

#### **Sub-IR: 4.1: Appropriate Microfinance Products and Services Increased through Geographic Coverage and Capacity Building of Microfinance Institutions (MFIs)**

Access to financial services in the rural areas of Nepal is severely limited. Microfinance institutions (MFIs) have reached areas where previously no financial services were available. NEAT supported two MFIs, Nirdhan Utthan Bank Limited (NUBL) and United Youth Community (UNYC), to open eight new branches in underserved areas.

NEAT also assessed training provider in the sector and identified training needs. Based on the assessment the Centre for Self-Help Development (CSD), with almost two decades of microfinance implementation experience, NEAT developed CSD as a training institute. CSD will continue to offer courses in tailored lending products for financial institutions after NEAT has closed.

*Activity 4.1.1: Support MFIs in developing new products and services using best practices.*

*October 2012-August 2013*

United Youth Community (UNYC) Nepal piloted three new products in its branch offices in Sanoshree, Bardia and Tikapur, Kailali: emergency loans, housing loans, and micro-enterprise loans. Utilizing the emergency loan product, UNYC clients are now able to borrow NRs. 5,000 to 10,000 for emergency medical expenses such as accidents, or surgery. Previously, to meet such expenses clients had to borrow from informal sources at higher interest rates, above five percent per month. Other UNYC clients utilized housing loans to improve the living conditions of their existing homes. Likewise, microenterprise loans helped some clients expand their businesses. This product, with a maximum loan amount of NRs. 200,000, is expected to address the issue of multiple borrowing (i.e. clients taking out loans from multiple financial institutions because of low maximum loan sizes). Both housing loans and micro-enterprise loans are collateral based and designed for individuals, while emergency loans are provided on group guarantee basis. Based on responses from clients about product features such as loan amounts, loan terms, interest rates, and repayment installments, the products will be fine tuned and introduced at all branch offices. Based on feedback from clients on product features and needs for modifications, UNYC has tailored the products and is introducing them at other branches.

Nirdhan Utthan Bank Ltd. (NUBL) designed two products, one focused on long-term savings “*Sambridhi Bachat Yojana*” and the other related to project loans. With the long-term savings product, clients who deposit a set amount each month for 14 years will benefit by the bank matching the total amount saved. Such savings are intended to help clients meet needs for events like marriage, higher education of their children, or purchasing a large asset, which otherwise would be difficult and would previously have meant borrowing from the informal market at a higher interest rate. Likewise, project loans will help clients focus on best businesses practices, with project concept based on cash-flow analysis. NUBL identified branch offices to test the product prototypes and gave orientation to the staff of those offices. NUBL is piloted its products through 12 branch offices under its three regional offices. Based on experiences with the pilots, NUBL is fine tuning the products for introduction at additional branches

*Activity 4.1.2: Enhance access to finance in underserved areas through branch expansion and through branchless and mobile phone banking initiative.*

*October 2012-August 2013*

During the life of the NEAT project two financial institutions UNYC and NUBL have opened eight bank branches in unserved or underserved areas. NUBL opened branch offices in Palpa, Kapilvastu, Rolpa, Salyan and Kailali while UNYC opened new branches in Kailali and Bardia districts.

In addition NUBL is following wholesale lending approach with the SRG (Self-Reliant Group) model, and the groups formed in previous quarters are gaining maturity. In the SRG modality, NUBL provides wholesale loans to groups, and the groups provide retail loans to individual members. In this modality, groups not only assess the loans demanded by the member, but are responsible for keeping the books on their own. A four-member executive committee handles all transactions and is the primary contact with NUBL. NUBL provides the required capacity building support to the executive committee members of the group. This approach has also helped to empower the groups.

In addition to extending financial services through new branches, both UNYC and NUBL enrolled members from NEAT food security households through other branch offices.

Through mobile banking and branchless outlets using point of sale devices Laxmi Bank and Mega Bank now serve more than 10,000 customers in more than 30 districts. Mega Bank has established 45 branchless banking (BLB) outlets. With BLB, customers, particularly women and members of deprived communities, now have access to banking services in their own communities. Previously, their access was limited due to distance as well as low literacy levels and lack of confidence. Many members have begun developing savings habits. Through BLB, Mega Bank also provides micro loans to its customers, enabling women to borrow without collateral to run small businesses, raise small animals, or other productive purposes. Given the success of Laxmi Bank's *Mobile Khata* program, in Year 3 NEAT and Laxmi Bank signed a second grant agreement. Laxmi bank expanded its *Mobile Khata* in additional districts. With *Mobile Khata* services, rural people have started accessing banking facilities at the village level, which was difficult previously due to the need to travel long distances to reach bank branch offices, which are usually located in district headquarters. As a result of *Mobile Khata*, rural households have started saving.

NEAT provided technical assistance to Laxmi Bank and its consortium partners, including Finaccess and five other commercial banks, to develop a three-year business plan. NEAT hired an international firm to provide technical assistance. With this support, Laxmi Bank and its consortium partners will be able to expand their businesses to make mobile banking an integral part of the financial sector landscape in Nepal.

**Activity 4.1.3:** *Support organizational development of CSD and provide sector-wide training.*

*October 2012-August 2013*

The NRB requires commercial banks to invest 10 percent of their total portfolio in the agriculture and energy sectors. To help commercial banks respond to this mandate, CSD offered the first two training courses in Agriculture Value Chain Finance in Nepal. The course was designed by an international expert who trained Nepali trainers in the course. NEAT also provided technical assistance to commercial banks: Mega Bank Nepal, Laxmi Bank Ltd., Rastriya Banijya Bank Ltd and Nepal Investment Bank Ltd. to design agriculture loan products. Supported banks have begun designing products to boost their agriculture lending portfolio for meeting the lending requirement set by the NRB.

In addition, considering the heavy competition among the financial institutions to identify new bankable clients, NEAT assisted financial institutions in identifying bankable opportunities through a financial supply and demand study for the orthodox tea value chain. Consequently, banks like, Sunrise Bank and Global Bank expanded their lending business to small tea growers and processors

Also, CSD in collaboration with Training Institute for Technical Instructions (TITI) organized a TOT for MFI personnel to enhance their training delivery skills. Based on need of the sector and as per recommendation of the Nepal Microfinance Bank Association (NMBA) and Microfinance Association Nepal (MIFAN), the apex bodies of MFIs in Nepal, CSD also offered two additional courses: Risk Management in Microfinance and Individual Microfinance Lending. As most MFIs focus almost exclusively on group lending, individual lending is an important strategy for the future. CSD conducted training on Design and Implementation of Individual Microfinance Lending for MFI staff. The training was well timed, as most of the MFIs reported the need to increase the levels of individual lending due to the inability to meet clients' loan requirements through group loans. Due to insufficient loan amounts under the group lending modality, clients are compelled to borrow from other organizations as well, leading to multiple financing. The individual lending course was the first of its kind in Nepal and demand was so great that the course was oversubscribed. 18 MFIs invested their own resources in the training for 27 loan officers. Following the training, the MFI Swabalamban Bikas Bank Ltd. drafted a manual for individual lending and is in the process of designing individual loan products that it will begin offering to its graduate clients, that is, clients who have been with the institution for a long period and have been borrowing without collateral under the group liability concept and have reached the loan ceiling for group-based loans. This will help clients expand their businesses and increase the bank's portfolio.

In all, more than 50 financial institutions benefitted from all the courses offered by CSD. In Year 3, NEAT provided technical assistance to CSD in preparing a three year sustainable business plan. As part of their planning process, CSD conducted detailed training needs assessment of two MFIs – Swabalamban Laghubitta Bikas Bank Ltd (SLBBL) and Chimmek Laghubitta Bikas Bank Ltd (CLBBL) and designed tailored training modules to cater to the specific needs of each MFI. CSD also started offering training programs at regional level and conducted training in microfinance in Nepalgunj in May 2013 with their own resources. CSD now regularly offers courses in the eastern and western regions on financial management, delinquency management, account keeping, and microfinance operational concepts and lending modalities. With these initiatives CSD may position themselves as the preferred microfinance training provider in Nepal.

In addition during Year 3, NEAT provided grant support to the Centre for Microfinance (CMF) to host Microfinance Summit 2013. The event was successful, and more than 800 participants representing different stakeholders attended.

### III. M&E DATA

Indicator Number	Indicator	LOP Targets	LOP Progress	FY 13 Progress
<b>Project Objective: Increased Economic Benefits and Food Security Enhanced</b>				
A	Change in value of incremental sales in selected sectors (USD)	20,000,000	26,794,759*	18,250,521
<i>*Additional sales for May 2012-September 2013 are estimated to be more than \$10 million USD; these sales have not been included as they could not be verified during the project period.</i>				
B	Gross margin per unit of land, or selected product (Percent)	20	70% food security 70% lentil 52% ginger	70% lentil 52% ginger
C	Number hectares under improved technologies or management practices as a result of USG assistance	3,500	14,913	8,250
D	Ease of Doing Business Rank	N/A	107	108
E	Number of rural households benefitting directly from USG interventions	58,000	80,221	14,334
F	Heritage Foundation Trade Freedom Score	N/A	60.8	60.8
G	MCC Fiscal Policy Indicator	N/A	63.5	63.5
<b>PIR 1: Economic Policies Strengthened</b>				
1.1	Number of days required to register a business	26	29	29
1.2	Average number of days required to trade goods across the border	38	41	29
1.3	Time to comply with taxes	304	326	326
1.4	Number of WTO requirements met with project assistance	4	1	0
1.5	Number of policy reforms/regulations/ administrative procedures in each of the following stages of development as a result of USG assistance:			
	Stage 1: Analyzed	40	40	4
	Stage 2: Drafted and presented for public/stakeholder consultation	36	40	10
	Stage 3: Presented for legislation/executive consideration	27	20	1
	Stage 4: Prepared with USG assistance passed/ approved	10	9	0
	Stage 5: Passed for which implementation has begun	10	9	6
1.6	Number of participants in trade and investment or fiscal policy environment trainings	949	1,887	1,083
1.7	Total change in revenue from VAT, income, excise and customs taxes (% increase)	20%	23%	N/A
<b>Sub-IR 1.1: Advocacy and distribution of information improved</b>				
1.2.1	Number of commodity associations/NGOSs strengthened in advocacy	3	3	0

Indicator Number	Indicator	LOP Targets	LOP Progress	FY 13 Progress
1.2.2	Number of public-private dialogues events held	45	68	19
1.2.3	Number of participants in public-private dialogue	1,500	3,310	1,306
1.2.4	Number hits accessing NEAT supported information portal	1,000	22,886	17,179
<b>PIR 2: Competitiveness of Selected Sectors Increased</b>				
2.1	Number of jobs attributed to FTF implementation	500	283	271
2.2	Change in value of value added in the selected sectors as a result of assistance (Percentage)	15	11.5% ginger 10.2% tea	11.5% ginger 10.2% tea*
<i>*The tea figure is a weighted average.</i>				
2.3	Value of exports in selected sub-sectors (USD)	5,000,000	5,225,035*	4,932,472
<i>*The export figure includes exports during the life of the project and projected export figures for 2013 from individual firms based on purchased quantities of commodities and existing export agreements.</i>				
2.4	Number of food security private enterprises (for profit), producers organizations, water users associations, women's groups, trade and business associations, and community-based organizations (CBOs) receiving USG assistance	2,000	2,677	29
2.5	Number of individuals who have received USG-supported training	30,000	80,613	35,175
<b>Sub-IR2.1. Production, processing, and market constraints addressed</b>				
2.1.1	Number of improved production and processing processes and marketing approaches adopted	35	39	39 (continuing)
<b>Sub-IR 2.2: Linkages between lead firms, SMEs and microenterprises strengthened</b>				
2.2.1	Number of MSMEs, including farmers, receiving business development services from USG assisted sources	25,000	55,409	44,292
2.2.2	Number of microenterprises linked to larger scale firms as a result of USG assistance to the value chain	15,000	14,962	3,385
2.2.3	Number of new or upgraded collection centers	40	80	16
<b>PIR 3: Food Security Enhanced</b>				
3.1	Prevalence of households with moderate or severe hunger (percent decreased)	-30	0	-68%
<i>* The baseline was collected from a sample of 8005 households. Progress data was taken from a sample of 860 households.</i>				

Indicator Number	Indicator	LOP Targets	LOP Progress	FY 13 Progress
3.2	Number of people who have received USG-supported short-term agricultural sector productivity and food security training	28,000	28,708	282
<b>Sub-IR 3.1 Agricultural Productivity and Production Increased</b>				
3.1.1	Number of farmers, who have applied new technologies or management practices as a result of USG assistance	27,000	28,708	28,708
<b>Sub-IR 3.2: Agricultural innovations developed &amp; disseminated</b>				
3.2.1	Number of new technologies or management practices in one of the following phases of development:			
	Phase I: under research as a result of USG assistance	3	0	0*
*Given the duration of the project NEAT focused on supporting field testing of technologies rather than research.				
	Phase II: under field testing as a result of USG assistance	30	89	27
<b>PIR4: Access to financial services for women, the poor &amp; disadvantaged increased</b>				
4.1	Value of new loans made by assisted microfinance organizations (USD)	1,800,000	3,992,434	3,279,769
4.2	Number of new borrowers from USG assisted microfinance institutions	7,000	10,429	8,773
<b>Sub-IR 4.1: Capacity of microfinance institutions and microfinance sector strengthened</b>				
4.1.1	Number of supported microfinance innovations implemented	8	7	5
4.1.2	Number of financial sector professionals trained on international standards	100	128	44

## V. FINANCIAL SUMMARY

