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WHEAT PRODUCTION AND UTILIZATION AS A LEADING EDGE
FOR DEVELOPMENT IN THE KATHMANDU VALLEY

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Wheat Production and Utilization as a Leading Edge
For Development in the Kathmandu Valley

By
John W. Mellor*

The Kathmandu Valley faces a difficult dual problem of raising farm incomes through increased agricultural production and expanding nonfarm employment opportunities for the growing population through increased industrialization. Industrial development is particularly difficult for Nepal because of its small market size and lack of raw materials. The two problems together rule out a wide range of industries. On the other hand, increased agricultural production is apt to be stifled by small, stagnant markets. The dilemma may be met by simultaneous expansion of agriculture and agriculturally based industries. Most low income countries initiate industrial development with industries based on agricultural raw materials because of the ready availability of the raw materials and the economies of small scale agricultural processing plants. Even India, with its reputation for emphasis on heavy industry has over half of its industry based on agricultural raw materials.

Given the dual needs of economic development in Nepal, it is particularly desirable to have development systems which operate in both agricultural and industrial areas. Increased wheat production and processing are ideal examples of this type of activity. On the one hand, wheat production offers an unusual opportunity for expanding farm incomes because of (1) the availability of unutilized rabi land suited to wheat and

* Prepared in Nepal during a consulting visit in April 1968 with USAID Mission to Nepal by John W. Mellor, Director, Cornell University - USAID Prices Research Contract.

(2) the effect on yields of increased fertilizer use on new varieties. On the other hand, the existing market for wheat for direct consumption is small. However, there is a substantial market both at home and, potentially, in export for wheat processed as biscuits, bread, and similar products. If these industries are to grow in Nepal they must have a large reliable supply of wheat of suitable quality. The new wheats offer this opportunity. The cooperatives with new godown capacity can provide the reliable supply. Wheat based industries can expand to provide a market and supply new employment.

It may be argued that wheat based industries cannot have a dramatic impact because of their small individual size, limitations to total growth from the Nepal market and the supply of wheat. However, economic development commences from small growth points. Wheat based industries could provide a basis for development of several strong companies which would then develop the know-how and capital resources for moving into other types of agricultural processing or even other fields. It must also be remembered that the existing base of industry in Nepal is very small. The additions possible from wheat processing industries would be substantial relative to this base.

There is already a small set of wheat processing firms in the flour mill, biscuit and candy factory and bread factories. All could be expanded substantially. The flour mill handles 1000 to 1300 tons of wheat per year. They sell it entirely for retail consumption and could sell much more at current prices. Expansion just to handle the household market should be substantial. The existing biscuit factory used over 700 tons of wheat per year and satisfies less than one quarter of the

Nepali market. The bread factories all suffer from lack of raw materials and do not satisfy existing demand. Thus there seems to be minimum short term scope for flour milling capacity in excess of 5000 tons. A careful market survey might turn up much more potential than this.

Expansion of the wheat industry requires attention to three component parts: production, marketing and processing.

Expanded production requires continued work on new varieties and fertilizer practices; and continued efforts to increase the availability of fertilizer to farmers in the time, place and form required. Most important is the need for study of irrigation resources and utilization with an eye to expanding the acreage of wheat with a well controlled water supply.

Improved marketing requires development of an efficient nucleus of cooperatives for handling wheat in bulk and with efficiency, each cooperative to be adequately financed with ample storage capacity. As the existing five cooperatives with storage are put into good operating shape efforts could be made to add more cooperatives and put together an apex organization. If the cooperatives are to help foster wheat processing industries it is more important to operate a few well than many badly. A major effort in running a few cooperatives well is called for.

Expanded Processing of wheat requires an effort to facilitate already planned expansion of flour milling capacity. In addition there is need for market surveys, including studies of longer term export potential for wheat based products; technical consultants in setting up and operating processing industries and foreign exchange aid for importing machinery and equipment.

The three requisites together provide an attractive and possible development package with good visibility.