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ANNUAL REPORT

NEPAL, ECONOMIC, AGRICULTURE, AND TRADE ACTIVITY

OCTOBER 2011 – SEPTEMBER 2012

October 2012

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ANNUAL REPORT

NEAT ACTIVITY

YEAR 2 ANNUAL REPORT

OCTOBER 1, 2011-SEPTEMBER 30, 2012

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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LIST OF ACRONYMS

ABBS	Any Branch Banking System
CAT	Community Agricultural Technicians
CNI	Confederation of Nepalese Industries
CPMP	Competition Promotion and Market Promotion
CSD	Centre for Self-Help Development
CVA	Customs Valuation Agreement
DAG	Disadvantaged Group
DOC	Department of Customs
FBO	Farmer-Based Organization
FDI	Foreign Direct Investment
FITTA	Foreign Investment and Technology Transfer Act
FNCCI	Federation of Nepalese Chambers of Commerce and Industries
FORWARD	Forum for Rural Welfare and Agricultural Reform for Development
GAP	Good Agricultural Practices
GATT	General Agreement on Tariffs and Trade
GON	Government of Nepal
GPS	Global Positioning System
GSP	Generalized System of Preferences
HIMCOOP	Himalayan Marketing Cooperative (for Tea)
HOTPA	Himalayan Orthodox Tea Producers Association
HS	Harmonized Commodity Description and Coding System
IEA	Industrial Enterprise Act
IP	Internet Protocol
IPM	Integrated Pest Management
IPR	Intellectual Property Rights
IPRAD	Institute for Policy Research and Development
IRD	Inland Revenue Department
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MOAC	Ministry of Agriculture and Cooperatives
MOCS	Ministry of Commerce and Supplies
MOI	Ministry of Industry
MOLF	Ministry of Law and Justice
NEAT	Nepal Economic, Agriculture, and Trade Activity
NMBA	Nepal Microfinance Bank Association
NRB	Nepal Rastra Bank
NUBL	Nirdhan Utthan Bank Limited
OCR	Office of Company Registrar
PCA	Post-Clearance Audit
PIR	Project Intermediate Result
PMP	Performance Management Plan
PPD	Public-Private Dialogue
RFP	Request for proposal
RRFU	Research and Revenue Forecasting Unit
SAARC	South Asian Association for Regional Cooperation
SATIS	SAARC Agreement on Trade in Services

SAWTEE	South Asia Watch on Trade, Economics and Environment
SEAN	Seed Entrepreneurs' Association of Nepal
SQCC	Seed Quality Control Center
SSSC	SEAN Seed Service Centre
TeaSec	Tea Sector Service Centre
TEPC	Trade and Export Promotion Centre
TIFA	Trade and Investment Framework Agreement
TOT	Training of Trainers
TPAW	Trade Policy Analytical Wing
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNYC	United Youth Community
USAID	United States Agency for International Development
VDC	Village Development Committee
WCO	World Customs Organization
WTO	World Trade Organization

I. EXECUTIVE SUMMARY

The Nepal Economic, Agriculture, and Trade (NEAT) Activity is a 30-month project, launched in early January 2011 and funded by the United States Agency for International Development (USAID). NEAT is designed to promote economic growth, reduce poverty, increase food security, and improve lives in Nepal. NEAT's project objective (Increased Economic Opportunities and Food Security Enhanced) is divided in to four Project Intermediate Results (PIRs): Economic Policies Strengthened, Competitiveness of Selected Sectors Increased, Food Security Enhanced, and Access to Microfinance Services Increased.

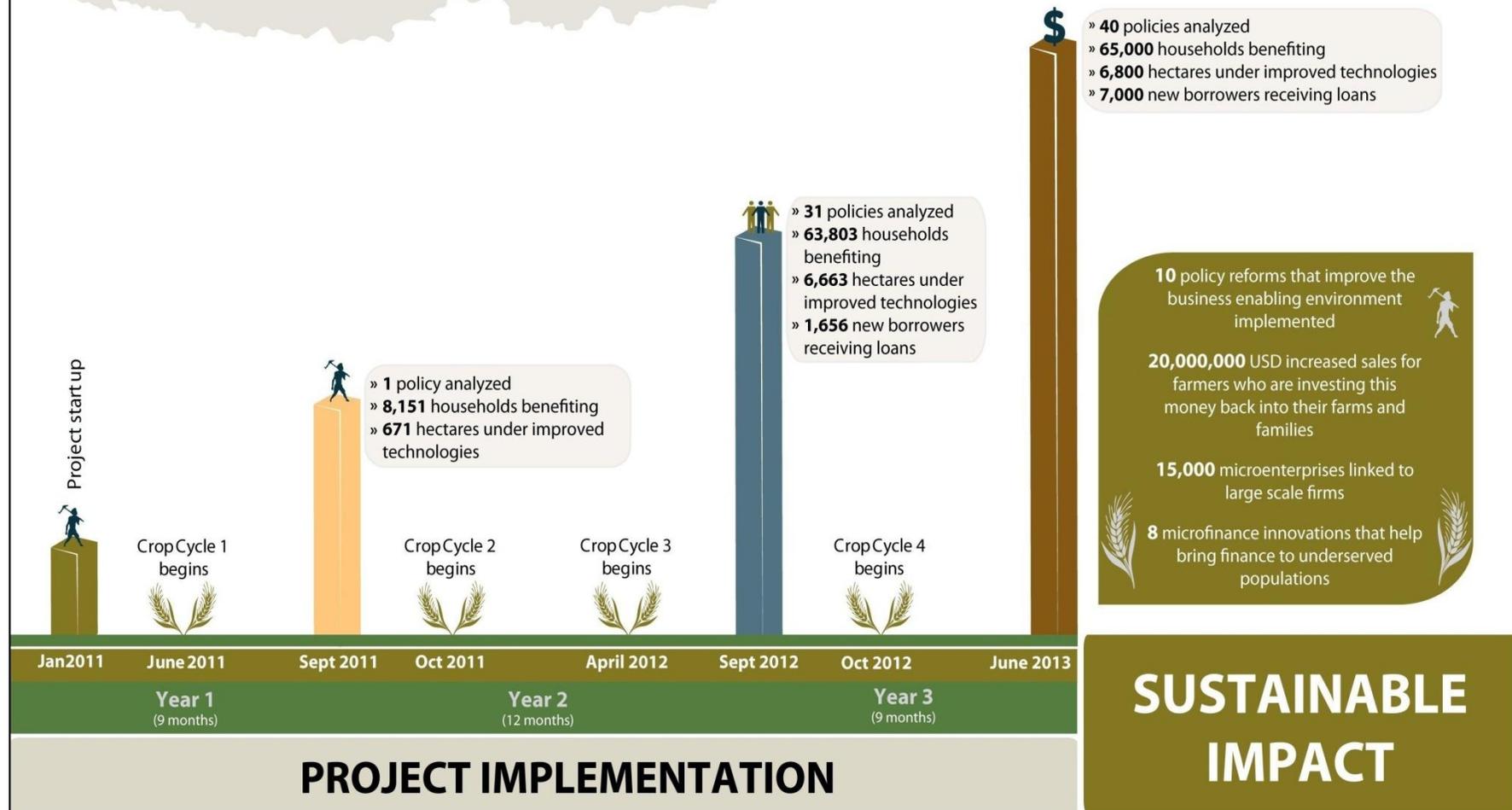
In year two, NEAT transitioned from the start-up to the scale-up phase of the project. NEAT has been operational for 21 months, during which time the project has issued 54 grants, reached 63,803 households, and assisted farmers in increasing their sales by more than USD\$8.5 million. The project has met or exceeded 16 of the 37 indicator targets in the performance monitoring plan (PMP). Additional results from 2012 include:

- 32 public private dialogues (PPDs) were held and 28 policy or regulation reforms were drafted and presented for stakeholder consideration;
- 2,792 food security groups were assisted;
- 35 improved production and processing procedures and marketing approaches were adopted;
- 11,117 micro, small, and medium enterprises (MSMEs) received business development services from NEAT-supported providers;
- 67 collection centers were established or upgraded;
- 27,984 food insecure farmers received an intensive productivity or livestock training package.

The *NEAT Activity* graphic (on the following page) demonstrates that NEAT has ramped up project activities quickly, and the project is on track to meet key targets at the end of year three. During the final nine months of the project, NEAT remains committed to achieving key results and creating sustainable impact.

Sections II, III, IV, and V of the report discuss the major accomplishments, results, milestones, and lessons learned under each PIR. Yet it is important to note that NEAT's multisector approach works to strengthen individual sectors and work across sectors to tackle important and complex issues around food security and economic growth. The info graphic *Improving Access to Quality Inputs*, in this section, is one illustration of this approach. In 2012, NEAT worked across sectors to create change and leverage opportunities for improved access to quality inputs, contract farming, access to finance, and increased competitiveness.

NEAT ACTIVITY



PROJECT IMPLEMENTATION

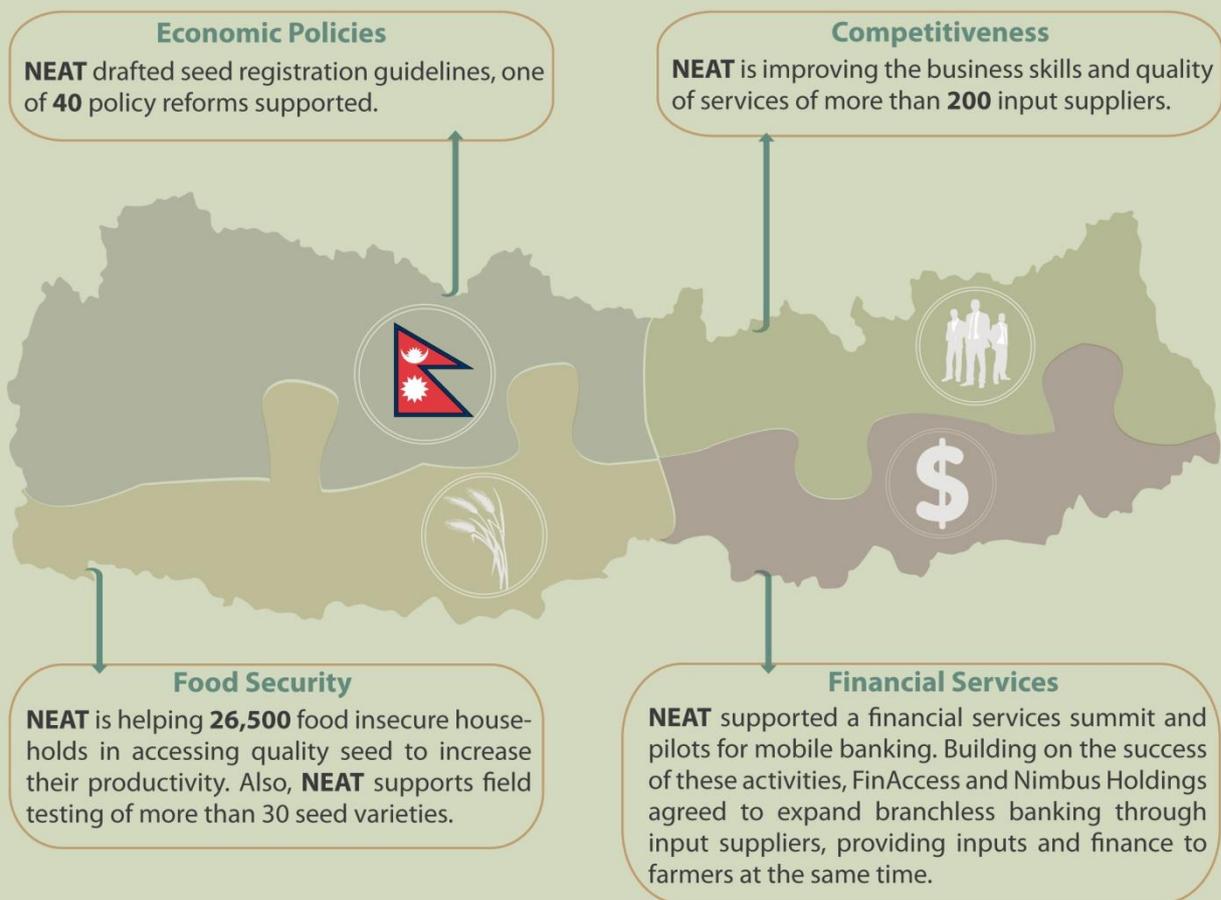
SUSTAINABLE IMPACT

What are the constraints to accessing **Inputs**.



- » Regulations for the registration of new seed varieties are lacking.
- » Quality inputs are often unavailable in time for the planting season.
- » Farmers are not yet convinced of the positive return on investment from improved inputs.
- » Farmers lack access to credit to invest in inputs.

NEAT's multi-sectoral approach to improving access to **Inputs**.



Improved productivity with increased use of quality **Inputs**.



NEAT's approach will increase the availability of quality seeds and inputs in the formal market. Farmers will see a positive return on investment from the use of improved seeds. More rural farmers will have access to credit so that they can invest in quality inputs

II. PIR 1: ECONOMIC POLICIES STRENGTHENED

Challenge:

Nepal is in the midst of a historic political transition from a monarchy system to a modern, democratic federal system. Key governance issues include deficiencies in the policy and legal framework for promotion and regulation of business. As a result, Nepal's investment climate remains less competitive to foreign direct investment (FDI). In addition, improvements in trade and fiscal policies and practices are necessary to generate more revenue for key government functions.

NEAT's Approach:

- Facilitate public-private dialogues (PPDs)
- Support the government of Nepal (GON) in creating business-friendly and competitive policies and procedures that stimulate trade and investment
- Build capacity of GON agencies in a sustainable manner

2012 Key Results:

- Completed assessment and draft policy of FDI
- Completed an assessment of intellectual property rights (IPR) legislation and drafted policy
- Drafted procedures for a Seed Registration and Compensation System
- Piloted the Any Branch Banking System (ABBS) tax payment process with large commercial taxpayers
- Established a data link between the Inland Revenue Department (IRD) and the Office of Company Registrar (OCR)
- Drafted guidelines for four key tax areas: double taxation, permanent establishment, transfer pricing, and long term contracts
- Supported IRD in establishing a Research and Revenue Forecasting Unit (RRFU)
- Completed detailed studies of trade relations with India, China, and the U.S. in partnership with Ministry of Commerce and Supplies (MOCS)
- Partnered with the MOCS to host the Export Import Data Bank on the Trade and Export Promotion Center (TEPC) webpage
- Completed assessments of the South Asian Free Trade Area (SAFTA) and the South Asian Association for Regional Cooperation Agreement (SAARC)
- Drafted bill for new Export Import Act
- Translated five volumes of Harmonized System of Classification
- Built capacity of Department of Customs (DOC) and MOCS staff through the development of training packages on:
 - Valuation
 - Post-Clearance Audit
 - Risk Management
 - HS Classification
- Created Invest Nepal portal to encourage and facilitate FDI



“IP cameras have made our work more transparent. Through these IP cameras, we have detected MRP (Manufacturer’s Recommended Price) labels being removed and duplicate invoices being made in seconds, which would otherwise take a long time to detect. Now it is much easier to track what is going on, and we can communicate to our teams faster than before.”

- Harihar Paudyal, Section Officer
Intelligence Department, DOC

II. A: Accomplishments and Results

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. During year two of the project, NEAT supported 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.**

In fiscal year 2012, NEAT supported 32 public-private dialogues (PPDs) around key issues, and analyzed, drafted, and presented 28 policy reforms or regulations for public stakeholder consultation. Despite an uncertain political climate, three policies were passed for which implementation has begun. In addition, NEAT's support is translating into real economic gain as revenue from IRD and DOC has increased by nearly 23 percent. As the GON works towards attaining full compliance with the WTO, NEAT supported the DOC in completing the customs valuation manual, one of the WTO requirements.

Additionally, NEAT enhanced the capacity of business organizations in policy research, analysis, and advocacy, and ways to better present their business policy grievances to the GON. NEAT worked with Seed Entrepreneurs' Association of Nepal (SEAN) to address Nepal's national seed policies, particularly the overly-complicated seed regulations, which do not effectively support the growth of the seed market in Nepal. Six grants to business associations allowed these organizations to disseminate vital information on the ramifications of policy changes to their members and the public at large through public-private dialogues (PPDs) and the interaction programs web portal. NEAT supported the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) with four grants, all of which were completed in year two:

1. Business Confidence Survey- survey completed and will be published in October 2012 with a target circulation of 2,000;
2. PPDs for drafting FDI policy;
3. PPDs on the Draft Industrial Enterprises Act (IEA); and
4. Creation of an Agriculture Sector Profile

Also, through NEAT's support, two new online resources were established in fiscal year 2012: an information portal designed to promote FDI, and a trade data resource site. The information portal, created with NEAT's support and jointly hosted by the Confederation of Nepalese Industries (CNI) and the Ministry of Industry (MOI), will help facilitate foreign direct investment by providing information to all current and potential foreign and Nepali investors on Nepal's policies on investment, acts, and regulations. The trade data site, hosted by the Trade and Export Promotion Center (TEPC), provides individuals, particularly GON officials charged with negotiating trade agreements, with reliable, current trade information. Previously, a lack of access to reliable, up-to-date information was a constraint to the business community, and also placed representatives of the GON at a significant disadvantage when negotiating trade agreements.

NEW AND IMPROVED POLICIES, REGULATIONS, AND PROCEDURES

Industrial Enterprise Act (IEA)

In effort to align the IEA with WTO requirements, and given that the previous Industrial Enterprise Act (IEA) bill was drafted in 1992 and modified in 1996, NEAT partnered with Federation of Nepalese Chambers of Commerce and Industries (FNCCI) and the MOI to host five PPDs on the draft bill to revise the IEA. Through the PPDs, the private sector raised issues around incentives for the private sector, the heavy burden of bureaucratic procedures, and the need to update the classification of industries to include sector the service sector, ICT, and tourism among others. Revisions to the IEA act will simplify and reduce the processing time for registration. FNCCI submitted its final report on the PPDs, including all recommendations gleaned from the discussions, and submitted this report to the MOI for approval. Upon reviewing the initial findings, the MOI has requested support from NEAT for short-term legal help to examine the recommendations received from FNCCI and other agencies and finalize the draft bill. NEAT initiated the process of contracting a legal expert in first quarter of fiscal year 2013. Upon the completion of the draft bill, the MOI will propose the IEA bill for approval.

Foreign Direct Investment (FDI)

One of the areas of focus for the MOI is attracting foreign investors to Nepal. In support of this effort, 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. It was recommended that all sectors be open to FDI and that minimum equity provisions be reconsidered in the FDI policy. Based on the findings of this report, which has been presented to MOI and other concerned stakeholders, NEAT extended its technical and logistic support to MOI through IPRAD to draft a new FDI policy. NEAT also sought FNCCI's cooperation in organizing two PPDs. In September 2012, NEAT submitted the final draft FDI policy to MOI for further processing and cabinet approval.

Intellectual Property Rights (IPR)

NEAT is working 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 Trade-Related Aspects of Intellectual Property Rights (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. In fiscal year 2012, NEAT commissioned national consulting firm PACE Nepal to conduct an assessment of the IPR regime in Nepal and invited an international IPR expert to make recommendations. Based on the findings of the assessment, NEAT extended support to MOI to organize two PPDs, draft a new FDI policy, and finalize the draft IP policy. One of the issues raised during the PPDs was the need for a separate independent authority to handle copyright and industrial property issues. NEAT has submitted the final draft IP policy to MOI for further processing for cabinet approval.

Agribusiness Promotion Act

Although some contract farming exists in Nepal, there has been minimal oversight, and due to an absence of legal and regulating mechanisms, breaches of contract by both producers and buyers have been common. As a result, the export oriented production has suffered due to failures in meeting quality and quantity commitments. To address

this, NEAT is completing a draft of an Agribusiness Promotion Act to provide a legal framework for contract farming as well as for promotion of commercial agriculture in Nepal. NEAT has partnered with AEC/FNCCI to present the draft in two PPDs in October and November 2012 in order to gather feedback from stakeholders. This feedback will be incorporated in a final draft, which will be submitted to MOAC by the end of November 2012.

In addition, NEAT invited individuals from MOAC to participate in a visit to Punjab and Haryana to gain an understanding of contract farming law and practices in India in October 2012. Information gathered on this trip will assist MOAC's technical committee in making its final recommendations on the legal drafting of the Agribusiness Promotion Act.

Seed Registration and Compensation

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. NEAT completed a draft procedure for seed registration, as well as draft guidelines for fixing compensation for damage caused by sales of unregistered seeds. The Seed Entrepreneurs Association of Nepal (SEAN) reviewed the procedure and guidelines, held a series of discussions at the Seed Quality Control Center (SQCC) with GON officials and SEAN members, and submitted the draft to the National Seed Board for approval.

NEAT also provided support to SEAN to conduct a study on the Nepalese seed market and seed trade with India and China. The study is being used for the development of a National Seed Policy and effective implementation of seed laws and regulations.

Competition Promotion and Market Protection (CPMP) Act

In Nepal, price fixing and cartel issues are significant constraints to fostering a competitive environment. While legal regulations around competition promotion exist, there were no practical guidelines for enforcement, and thus the law was not widely understood or implemented. In order to promote and increase FDI and trade, and as a part of Nepal's accession to the WTO, competition issues and regulations must be addressed. NEAT initiated the preparation of the draft guidelines required for implementation of the Competition Promotion and Market Protection (CPMP) Act 2007, working in close collaboration with the implementing authority, the Department of Commerce and Supply Management. The South Asia Watch on Trade, Economics and Environment (SAWTEE) completed the initial draft of the guidelines and organized a series of inter-departmental technical discussions at the Department of Commerce for draft modifications. Also, two consultative meetings were held that included representatives from the MOCS, Ministry of Home Affairs, Ministry of Law and Justice (MOLJ), and the chief district officers of more than 17 districts, who are responsible for enforcement of the act at the district level. Based on the comments and suggestions from the enforcement officials, SAWTEE finalized the draft technical guidelines and submitted them to NEAT and the Department of Commerce for adoption.

Export Import Act

NEAT submitted the final draft of revisions for the Export Import Act and Regulations to MOCS, incorporating feedback received from a series of four PPDs. A Technical

Committee of MOCS is currently working to validate the proposed revisions, and a final draft in the form of a bill will be submitted to parliament for approval. These revisions, which emphasize trade promotion and development rather than trade control, are required for bringing Nepal into compliance with the WTO requirement.

Any Branch Banking System (ABBS) Piloted

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 June 2012 the MOF authorized the use of the Any Branch Banking System (ABBS) for large taxpayers. The program commenced in July 2012. Through this program, business owners are no longer forced to travel to Kathmandu to pay their taxes. Instead, payments can be submitted at a number of authorized banks outside of the valley. Subject to successful implementation with large taxpayers, ABBS will be made available to all taxpayers.

Tax Areas Guidelines Prepared

NEAT tax advisers and international specialists, in consultation with the private sector business representatives and accountants, prepared guidelines for four specialized tax areas: 1) double taxation agreements, 2) permanent establishments, 3) transfer pricing, and 4) long term contracts. NEAT submitted all four guidelines to the IRD, where they are being translated into Nepali. The edited guidelines will be published by the IRD and implemented early in fiscal year 2013. Implementation of the four guidelines will not only clarify the tax rules and regulation for both IRD and the private sector but will increase tax revenue for the GON.

Customs Valuation Agreement

NEAT's international customs expert submitted recommended amendments to the customs valuation-related articles of the customs act and regulations to reflect the provisions of the WTO Customs Valuation Agreement (CVA). A workshop on customs regulatory matters was conducted in collaboration with the DOC in June 2012.

CAPACITY BUILDING

Trade

NEAT is working with the GON to improve Nepal's trade negotiation capacity and supporting GON ministries in setting the country's trade agenda. In particular, NEAT is working to build the analytical capacity of MOCS staff to improve officials' abilities to negotiate regional, bilateral, and multilateral trade agreements that benefit Nepal. Key accomplishments from year two include:

- *Trade Policy Analytical Wing Established:* The MOCS has created a Trade Policy Analytical Wing (TPAW) to provide analytical information and inputs to trade negotiating teams, trade policy formulating teams, and GON officials. NEAT is supporting efforts to make the TPAW fully operational through technical and hardware assistance.

- *Two Training Courses Created:* NEAT engaged an international trade expert and the Nepali firm South Asia Watch on Trade Economics and Environment (SAWTEE) to prepare a training package including 1) a basic course on the international trading system and 2) a course on the trade data analysis. These training programs now serve as the foundation for future training programs for GON officials. A total of 65 GON officials and representatives of trade institutions participated in training of trainers (TOT) sessions on the international trading system and how to build trade research and analytical capacity, and 12 senior GON officials are now qualified to lead future training programs. NEAT will replicate these programs with the help of the trained trainers in October 2012 and March 2013. In fiscal year 2013, a third training course will be developed in trade negotiation skills. This course will be attended by joint secretaries and under secretaries of various ministries of the GON.
- *Recommendation for Creation of a Trade Committee:* NEAT submitted concept papers to MOCS proposing the formation of either a Trade Advisory Committee or a Trade Consultative Committee, similar to those that exist in other countries such as the U.S. and Australia. NEAT also advised the development of a trade issue reporting mechanism with the aim of establishing a permanent basis for developing a trade negotiation agenda. MOCS is considering these proposals.
- *Participation in WTO Trade Policy Review:* NEAT sponsored the participation of four senior GON officers at the Trade Policy Review Meeting held at the WTO headquarters in Geneva, Switzerland in March 2012.
- *Generalized System of Preferences (GSP) Presentation:* NEAT partnered with MOCS and the Nepal/U.S.A Chamber of Commerce and Industry (NUSACCI) to present an interactive workshop led by the Deputy Assistant U.S. Trade Representative for GSP. The objective of the program was to increase understanding on the opportunities available to Nepal for export expansion and diversification through the utilization of GSP facilities.

In fiscal year 2013, NEAT will continue to build the trade negotiation capacity of the GON and MOCS by preparing and delivering a training package on trade negotiation skills. NEAT has identified a trade negotiation expert who will arrive in Nepal in December 2012 to prepare the training package.

Fiscal Policy

- *Research and Revenue Forecasting Unit (RRFU) established:* Following NEAT's recommendation in early 2012, the IRD is establishing a Research and Revenue Forecasting Unit (RRFU) under the Investigation and Development Section. The RRFU, headed by a director and staffed by one economist, will generate revenue forecasts for various taxes and will conduct analytical studies on tax issues. The unit will work closely with the MOF, which will consider the RRFU's revenue estimates when designing tax policies and producing Nepal's annual budget. NEAT is in the process of engaging an international and a Nepali economist to assist the RRFU in the first quarter of fiscal year 2013.

- *Training in Taxation:* NEAT presented training sessions on Tax Evasion and Tax Avoidance, and Taxation of Income from Independent Personal Services at the MOF Revenue and Administration Training Center (RATC).
- *Revenue Analysis Training:* NEAT provided revenue analysis training in November 2011 to 28 individuals from multiple GON agencies. The course covered econometrics, forecasting, monitoring, and other revenue analysis topics, as well as demonstrations of income tax, value-added tax (VAT), and micro-simulation models. NEAT also prepared a study that examined excise taxes in Nepal and offered recommendations on how the excise tax system could be revised to generate additional revenue.
- *Revenue Forecasting Training:* NEAT sponsored two IRD senior officials to attend a two-week revenue forecasting course in the U.S. in August 2012.

Customs

As part of its accession to the WTO, and in order to comply with international standards as outlined in the WTO/GATT, Nepal is implementing a four-year action plan to reform and modernize the DOC. NEAT is one of the DOC's most important partners in this effort. To support capacity building efforts, NEAT partnered with the DOC to harmonize its customs management system with international standards. Accomplishments include:

- *Customs Valuation:* NEAT developed a training manual on customs valuation for officers responsible for supervising customs valuation mechanisms and revenue investigation. In addition, NEAT conducted training programs in Bhairahawa, Nepalgunj, Biratnagar, and Pokhara for 144 custom officers and other GON officers. This directive has formed the foundation for customs officials to follow valuation procedures as outlined out in the WTO/CVA.
- *Post-Clearance Audit:* NEAT's international customs consultant proposed improvements in regulatory provisions and reporting procedures of post-clearance audit (PCA) based on international best practices. A training course on PCA was developed and a training course was conducted in Kathmandu for 28 customs officials and PCA auditors. In addition, NEAT partnered with the DOC to conduct a two-week training course in Kathmandu on the financial system for PCA auditors, aimed at enhancing the understanding of PCA auditors on how business financial accounting records are constructed and how they interrelate with the provisions of the WTO/CVA.

Caught on Camera

The Ministry of Finance and Department of Customs are committed to fighting fraud which continues to threaten national revenue collection efforts. NEAT supported the Department of Customs to more effectively regulate border trade by installing IP cameras. Through these cameras the Ministry has been able to identify officials in Birgunj who were under invoicing traders for imported goods. As a result of this incident a strong message has been sent to traders and customs employees that the GON of Nepal is serious about enforcement. In addition, the DOC was able to collect an additional NPR 4,027,000 in revenue after correcting 75 letters of credit.

- *Risk Management:* NEAT developed a training manual and course in risk management and 28 customs officials were trained.
- *Internet Protocol (IP) Cameras Installed:* In January 2012 NEAT completed support programs for the planning, procurement, and installation of Internet Protocol (IP) cameras, with data and power backup systems at Nepal's major customs points, in Tatopani, Biratnagar, and Birgunj. These cameras improve transparency and expedite customs procedures (*see box*).
- *National Customs Seminar:* NEAT held a national seminar on customs valuation and administration in Pokhara in December 2011, providing a forum for an exchange of ideas among officials from various customs points and senior officials from the DOC. Participants addressed critical issues related to customs laws, policy, administration, procedures, and valuation. The most notable accomplishment of this seminar was the creation of the Pokhara Declaration that focused on reforming and strengthening the customs administration. The declaration included 15 recommendations for improving procedures, transparency, and capacity of the administration. The declaration was unanimously supported and signed by the more than 50 participants. It was presented, along with the Customs Valuation Procedures Manual, on January 26, 2012 during Custom's Day.
- *Harmonized System of Tariff Classification:* NEAT partnered with the DOC in undertaking various activities related to the Harmonized System of Tariff Classification (HS). This included development of an HS Tariff Classification training program aimed at building the capacity of DOC, harmonizing Nepal's procedures with international norms, and implementing the customs reform action plan. In addition, five volumes of HS with explanatory notes of 2,700 pages, published by the World Customs Organization (WCO), have been translated into Nepali and are being reviewed by a technical committee of the DOC for validation and publication. These documents will increase GON revenue through increased knowledge and efficiency among customs officials, customs agents, and other stakeholders. After the translated version is validated, the copyright of the published document will be retained by the DOC.

INFORMATION GATHERING AND DISSEMINATION

New Online Portal to Promote Foreign Direct Investment

Following up on a feasibility study conducted in year one on the establishment of an information portal for FDI, NEAT began the process of establishing a portal at the Confederation of Nepalese Industries (CNI). NEAT is assisting CNI to design the operational structure of the portal, www.investnepal.gov.np, and providing initial operational support, such as training of staff and website development, through a cost-share arrangement. CNI has completed the design and development of the information portal for joint hosting with MOI as public-private partnership, and the formal launch is scheduled for October 2012. CNI will take full responsibility for maintenance of the portal when NEAT's support ceases in March 2013.

Export Import Data Bank

NEAT supported the Export Import Data Bank on the Trade and Export Promotion Centre (TEPC) webpage (www.tepc.gov.np). The site has received more than 5,000 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.

Data link established between IRD and OCR

With NEAT's support, The Inland Revenue Department (IRD) and the Office of the Company Registrar (OCR) established a data link between the two agencies. This link enables the IRD and OCR to identify non-compliant companies and taxpayers, and allows the two agencies to integrate selected company registration and Permanent Account Number registration procedures, which creates a more efficient registration process. Using this data link as a model, the director general of the IRD plans to initiate similar data links with other GON agencies. In year three, NEAT will support the IRD in conducting a feasibility study on developing linkages with the Land Registration Office, Metropolitan Offices, Nepal Rastra Bank (NRB), and the Transport Management Department.

Increased Understanding of TIFA

In association with MOCS and Nepal-USA Chamber of Commerce and Industry (NUSACCI), NEAT conducted a meeting on the Trade and Investment Framework Agreement (TIFA) between Nepal and the U.S., giving representatives from the private sector the opportunity to share their views on the challenges and areas of greatest concern with TIFA. During the meeting, NEAT's international trade consultant presented a technical paper and submitted a report with recommendations for future negotiations. A separate meeting was organized by NEAT and NUSACCI to recommend an agenda for the second TIFA Council meeting. The MOCS will use the feedback from these meetings and the report of the consultant to develop the final agenda for negotiations, which are expected to take place in the first quarter of fiscal year 2013.

India and China Trade Assessment Reports

NEAT completed two trade assessment reports on Nepal's trade with India and China, which the MOCS is using to develop agendas and strategies for trade negotiations with India and China. The GON has reviewed the reports and will consider incorporating some of the recommendations in their forthcoming negotiation agendas with these countries, which are anticipated to take place in 2013.

Assessments of SAFTA and SATIS

NEAT partnered with the MOCS to conduct an assessment of trade prospects through better negotiation strategies and presented a report on SAFTA (South Asian Free Trade Area) and SATIS (SAARC (South Asian Association for Regional Cooperation) Agreement on Trade in Services). Some of the recommendations include reducing the list of sensitive items and clarifying certificates of origin. Furthermore, it was suggested that sectors that are open for WTO should be opened for SATIS as well. This assessment was supported by a separate diagnostic study report on appropriate

analytical tools and models applicable in the Nepali context. These reports together form an important base for MOCS to develop a negotiation agenda and strategies for future negotiations at the SAFTA and SATIS forums.

II. B: Lessons Learned

Encouraging stakeholders to take ownership takes time, but is essential for sustainability. During year one, some GON partners expected that NEAT would provide all of the human and financial resources to implement activities. However, NEAT focused on demand-driven activities that support the public and private sectors' existing policy, plans, and strategies. This approach allows our partners to take ownership over the results and create sustainable change. By year two, the GON had designated fiscal year 2012-13 as the Nepal Investment Year (NIY).

Public-private dialogue leads to expedited results. NEAT has found that intensive PPDs motivate both the GON and private sector organizations to reach consensus quickly. Identifying motivating factors, and key change agents in advance is critical for moving the process forward.

Change in counterparts equals a change in priorities: As we well know, when counterparts change, activities are often delayed as new counterparts settle in and define their priorities. NEAT's work plan was developed based on the needs identified by the related ministries/departments and in close consultation with the private sector. However, frequent changes in the leadership resulted in delays in programming as new leadership had different perceived priorities. To ensure continuity of key activities, NEAT established strong relationships with key joint secretaries and department heads that were able to advocate on behalf of NEAT activities with new ministry leaders. In addition, within days of a new leadership appointment, NEAT provides comprehensive briefings to assure continued support and avoid disruptions in implementation of activities.

Limitations of time and resources require innovative, effective planning, and rapid intervention. Counterparts have noted that NEAT moves quickly to identify effective program areas and implement solutions. In a short amount of time, results have been realized and partners' have come to value the quality and speed of NEAT's support.

Knowledge sharing is important for continuity and capacity building of our partners. Systematic transfer of relevant reports, assessments, and progress reports is important for partners. As noted above with turnover rates of staff, changing priorities, and in order to facilitate donor coordination- knowledge sharing is critical for continuity.

Ability of Nepali staff to build strong relationships with counterparts is essential. Nepal is a challenging and complex political environment, and as noted previously there are numerous leadership changes within ministries and counterparts. Project staff must have credibility to gain the respect of counterparts. NEAT's policy team is persistent and they follow up with counterparts on a consistent basis to ensure activities stay on track. Well regarded Nepali technical experts have been critical to navigating the political landscape and achieving rapid results.

SUCCESS STORY SPOTLIGHT

Expedited Payments Save Time and Money

Bheri Gas Udhyog, a large business, in Nepalgunj, used to send an employee to pay taxes in Katmandu at the Large Tax Payer's office 12-15 times per year. If there were any errors in the form, the employee would have to travel back to Nepalgunj to have them fixed. Interest was charged if any monthly payment was late. The employee traveling to Katmandu would have to stay two or three days until the transaction was completed, or Bheri would occasionally hire a local contact to conduct the transactions. In both cases, the financial costs and time involved with making the payment every month were significant.

The GON is working to improve Nepal's World Bank Doing Business score. One key indicator is the number of hours it takes to pay taxes. NEAT identified opportunities for the GON to update their payment system including an intrabank payment service which would significantly reduce the time it takes to pay taxes.

In July 2012, NEAT supported the MOF in establishing Any Branch Banking System (ABBS), which allows large taxpayers to pay their monthly taxes at any branch of Rastriya Banija Bank or Everest Bank. The new system saves time and money for the taxpayer because it is easier to pay taxes, and it assures more timely payments of taxes by businesses to the GON. Now Bheri Gas only travels to the capital once a year to collect their tax vouchers and instead of taking days to pay taxes, it takes only a few hours.

"This not only motivates us towards our work, but it is also is very encouraging that the Government is actually concerned and will address our problems."

-Lal Bdr Chettri
Accountant Bheri Gas Udhyog



II. Ca: Milestones- Business Enabling Environment

Milestones	Year 2 Target	Year 2 Progress	Comments
Revised Industrial Enterprise Act approved	1	0	At the MOI's request, NEAT is contracting a legal expert to prepare a final draft of the IEA that will incorporate the feedback received from PPDs. This will be completed by the end of FY 13 Q1, after which the IEA will be ready for approval.
Draft FDI policy and Draft FITTA submitted	2	1	Final draft of FDI policy submitted to the MOI; MOI will start its approval process in October 2012. Once the FSI policy is approved, NEAT will move forward with the FITTA draft.
IPR policy submitted to cabinet	1	1	Approval process will start in October 2012.
MOI staff trained	20	0	The training program was postponed due to a delay in finalizing the IP policy draft; training is rescheduled for December 2012.
Guidelines for implementation of CPMPA finalized	1	0	NEAT has drafted technical guidelines and agreed legal guidelines will be drafted in October 2012.
Diagnostic studies on service sector regulatory reforms completed	2	0	The JS/MOCS requested diagnostic studies conducted on topics other than those initially specified; NEAT is waiting to receive the topics. The new timeline is November 2012 through January 2013.
Research reports on capacity building of business and trade associations completed	4	8	
Information point implemented and operational	1	0	www.investnepal.gov.np is ready for launch in October 2012.
Contract law amendment drafted and sent to Parliament for approval	1	0	MOAD technical committee recommended a new draft Agribusiness Promotion Act be written rather than revising the existing Contract Act. ABTRACO has prepared a draft, and the technical committee of MOAD has cleared the draft for two PPDs. After incorporating feedback from the PPDs, the final draft will be prepared and submitted to MOAD in November 2012.
Seed regulation approved	1	0	A study of current regulatory provisions and draft regulations was conducted and draft seed registration procedures and guidelines for compensation were prepared. The draft procedure and guidelines were adopted by the SQCC/MOAD technical committee, and submitted to SQCC and MOAD by SEAN. Based on these documents SQCC/MOAD, the legal officers of MOAD and the MOLJ revisited the draft seed regulations and finalized the draft incorporating most of the provisions suggested. MOAD has sent the draft to the cabinet for approval.

IV. Cb: Milestones- Trade and Fiscal Policy

Milestones	Annual Target	Year 2 Progress	Comments
Mechanism for public-private participation in setting trade negotiation agenda established	1	0	NEAT undertook a number of studies including bilateral trade with India, China and USA and regional trade under SAFTA and SATIS. All reports have been delivered in hard and soft copies. Currently the MOCS is using these study reports to develop negotiation agenda for the upcoming meetings with India, China and USA and for the forums under SAFTA and SATIS.
Trade statistical analysis system developed and government negotiators familiarized with the system	1	1	NEAT developed a statistical analysis system, and a total of 36 government officials have been trained
Trade analysis tools introduced and applied	1	0	Sub-contractor SAWTEE introduced the report on trade analysis models applicable to Nepal. Currently the MOCS is studying the report to consider application.
Trade analytical wing established and officials trained.	20	29	NEAT supported MOCS with 4 computers and other equipment to strengthen the operation of Trade Policy Analytical Wing (TPAW), and NEAT provided short-term technical assistance to improve the working modalities of TPAW. Early in 2012, NEAT provided 29 officials in an international training system and has replicated this work in FY 2013 quarter 1.
Export-Import management bill drafted and submitted for approval.	1	1	NEAT has submitted the draft bill and the committee is likely to approve the bill within the first quarter of year 3.
Pilot program allowing intrabank transfers using the Any Branch Banking System (ABBS) for the payment of taxes implemented	1	1	Everest Bank Ltd. is now accepting tax payments by large tax payers at all of its branches.
Data link established between the IRD and the OCR	1	1	The link has been establishing and they are piloting the system
Guidelines for four specialized tax areas approved and implemented, IRD and MOF staff trained	4	0	Guidelines were developed and submitted to DRI and are being used for tax assessments. The guidelines are being translated into Nepali, after which full implementation will begin in early in FY 2013.
RPAU at the IRD established and staff trained	1	0	NEAT is in the process of contracting a local economist who will provide technical assistance in establishing the RRFU; this will be completed in early FY 2013. An international expert will provide additional training in January.

New valuation provisions incorporated into customs regulation and individuals trained on customs valuation systems	80	94	New valuation provision based on Customs Valuation Agreement of the WTO was implemented in March 2012.
IP-based monitoring equipment installed at major customs checkpoints	3	3	Equipment and systems are being operated and maintained by customs offices at Biratnagar, Birgunj, and Tatopani.
Train officials on improved post clearance audit (PCA) system	20	51	Training programs were delivered on Customs PCA and financial accounting for PCA auditors.
Customs officials trained on improved risk management system	30	28	
Customs brokers trained on improved customs procedures and system	50	0	NEAT prepared and edited two documents: (i) Customs Agent examination curriculum and examination administrative procedures for examination and training to improve the existing regulatory procedures under the Customs Act and Customs Regulations, and (ii) training reference materials for the customs agents. These documents will be published during the first quarter of next year. We anticipate training in FY 2013.

III. PIR 2: COMPETITIVENESS OF SELECTED SECTORS INCREASED

Challenge:

Nepal's agricultural sector is unable to meet domestic and international market demand for both quantity and quality. As a result, Nepal has not realized its full economic growth potential from the agriculture sector. Constraints in production include a lack of knowledge of improved production practices, lack of access to essential inputs, and reticence to adopt new practices due to perceived risk. Actors in the private sector often find it difficult to procure quality inputs that meet export standards and lack access to finance for business investments. Inefficiencies and a lack of business skills along the value chain also contribute to inability to meet market demand.

Approach:

- Focus on a push and pull approach in four value chains with high export and import substitution potential: orthodox tea, lentil, ginger, and vegetables
- Introduce a market driven approach to producers and create direct linkages between producers and buyers
- Build capacity of actors throughout these selected value chains in technical areas and with improved business skills
- Train farmers in new production practices and increase their access to improved inputs
- Support the GON in addressing agribusiness-specific policy constraints

2012 Key Results:

- Trained 45,439 producers, agrovets and traders in productivity training or business skills
- Improved productivity on more than 6,000 hectares
 - 53% increase in productivity for lentil
- Facilitated linkages between 11,738 farmers and larger firms
- Established or upgraded 65 collection centers
- Supported a ginger washing facility for Nepal's only ginger exporting company resulting in export arrangements for the products in Europe; in addition, 2,800 farmers have entered into a contract farming agreement for next season's crop
- Facilitated the creation of a new national-level ginger association
- Supported the participation of the Himalayan Marketing Cooperative in the 2012 World Tea Expo and hosted the USA Tea Association
- Improved processing of lentils through a sorting machine resulting in a 50 percent increase in exports
- Built management capacity of 67 collection centers
- Facilitated the creation of voluntary standards for vegetables, rice, and lentils
- Drafted the Agribusiness Promotion Act to promote contract farming



“Before, the farmers used to put products of all grades together and sell them. Now, after three months, more than 80% of farmers are bringing voluntary standards into practice. Due to the grading system, the farmers are getting an appropriate price for their product.”

-Raju Maharjan,
Project Coordinator of Federation of Fruits and
Vegetables Entrepreneurs Nepal

III. A: Accomplishments and Results

The constraints in the business enabling environment in Nepal have been discussed in Section II; 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 vegetables) to support under NEAT's competitiveness component.

In year two, farmer sales have increased by USD\$3,533,322 across three of the four sectors (lentil, ginger, and off season vegetables). Tea data will be collected in December 2013 at the end of the tea season. The project has built capacity of and relationships between value chain actors through: trainings, strengthening input suppliers, value chain tours, market mapping workshops, collective marketing initiatives (lentil), market exposure visits (ginger and vegetable), and producer buyer business linkages (orthodox tea, vegetable, and ginger). In addition, NEAT has leveraged opportunities to connect producers from the food security component with business service providers and markets supported under components 2 and 5. In fiscal year 2012, 11,117 microenterprises were linked to business development services supported by NEAT.

TEA

Nepal primarily produces tea for domestic consumption or export to India. Recognizing Nepal's competitive advantage and the potential to diversify into new markets, NEAT's activities focus on both improved production and processing. In year two, NEAT supported orthodox tea productivity and green leaf quality improvement through training in tea garden management, organic production, safe pesticide use techniques, and improved production practices. NEAT partnered with Teasec, cooperatives, and processing firms to reach more than 4,000 households. These households were taught best practices for production and harvesting. Based on initial findings after the second flush of this year's harvest, the quality of tea has improved and farmers are earning more, despite a difficult year in tea due to droughts.

Promotion of GAPS in Tea

- ✓ Organic production
- ✓ Pruning and plucking
- ✓ Manuring
- ✓ Vermin compost technology
- ✓ Diseases and pest control

The human and financial costs for smallholder tea farmers to bring tea to the market are high (see the *Success Story Spotlight* on page 30). Thus NEAT is supporting the construction or upgrading of 14 tea collection centers to bulk green leaf tea. This has enhanced the linkages between tea farmers and processors. As a result, farmers post harvest losses have decreased and they are earning more. In addition, factories are able to increase their supply of quality tea.

Previously, only a few tea firms in Nepal were producing for the export market. NEAT partnered with firms who were more advanced in their export strategy and have existing market linkages such as Gorkha Tea as well as smaller firms in the value chain who are focusing on niche products and developing market linkages. For example, this year, 10 members of the Specialty Tea Association of Nepal (STAN)

installed modern processing machines through a cost share with NEAT. As a result of the partnership with NEAT, the production and quality of tea from small tea processors has improved and they are receiving a better price in the market. New markets have also opened up in Russia, Hong Kong, Japan, and China. An Indian buyer has placed an order for 15,000kg of green tea; STAN grantees can hardly keep up with demand.

Firm	FY 2012 Accomplishments with NEAT's Support
Nepal Small Tea Producers Limited (NESTPROL)	Improved quality of tea and reduced collection costs through 8 collection centers.
Members from Specialty Tea Association Of Nepal (STAN)	As a result of the enhanced processing capacity, STAN grantees are penetrating new markets for specialty tea.
Guranse Tea Estate	Vacuum packaging maintains quality and allows Guranse to sell when the time is right and the price is high.
Gorkha Tea Estate (P) Ltd.	Supported farmers in organic tea production.
Hariyali jaibik Cooperatives	Supported farmers in organic tea production and improved collective marketing.
Himalayan Shangri-la Tea Producers (P) Ltd.	Expanding number of organic tea producers and obtaining organic certification.
Kanchan Jungha Tea Estate and Research Center	Fair trade and ISO 22000 certified.

NEAT has supported capacity building to tea associations like HIMCOOP (Himalayan Tea Producers Cooperative), HOTPA (Himalayan Orthodox Tea Producers Association) and STAN (Specialty Tea Association of Nepal) in organizational development and marketing activities such as the promotion of Nepali tea brands at international trade fairs. NEAT helped to build relationships between Nepalese tea industries and US tea buyers, by supporting HIMCOOP and the Himalayan Orthodox Tea Producers Association in hosting a visit from 10 representatives of the Tea Association of the USA. Nepal's Sandakphu Spring White recently won the North American Tea Championships in the white tea category.



LENTIL

Lentil is Nepal's number one agriculture export, yet there are significant constraints in productivity. There is a supply deficiency in the domestic market, and untapped opportunities in the export market. As India has increased the restrictions on the export of lentil, Nepal is faced with an opportunity to fill the gap and expand the quantity of lentil exported to existing markets such as Bangladesh and enter new markets as well.

Promotion of GAPS in Lentil

- ✓ Seed priming
- ✓ Improved varieties
- ✓ *Rhizobium* inoculation
- ✓ Application of booster dose of phosphate fertilizer

NEAT partnered with FORWARD in March 2012 to address issues around productivity. FORWARD built the capacity of 12,444 farmers this year and is expanding their program in the final year of the project to support 17,200 farmers. Their activities include the promotion of GAPS (*see box above*) through demonstration plots, increasing access to improved varieties, and grading lentil through sieving. In the first season, lentil production has increased by more than 50 percent, and sales have increased by more than 100 percent. In the third quarter of fiscal year 2012, FORWARD brought traders and 1,800 producers from 11 districts together to discuss how to improve quality, and took producers to a factory to see quality checks. Knowing what quality grades get what price helps ensure transparency, build trust, and ultimately helps farmers increase their sales. Also, FORWARD helped deliver market information to rural areas by announcing lentil prices from 15 FMs in 11 districts for 7 days during the harvest.

In addition to FORWARD's value addition activities, NEAT linked with KUMCL, a small cooperative, to increase value addition through a grading machine which was used for seed, and which in the upcoming season will be used for lentil.

As part of NEAT's support to increase exports, NEAT partnered with Durga Dal Mill to modernize their machinery, which has resulted in increased export capabilities to as much as 3,500 MT through color sorting which increases the price significantly. NEAT will explore opportunities for contract farming with Durga Dal Mill in the upcoming year.

Nepal's export market for lentil is primarily focused on Bangladesh. In fiscal year 2013, NEAT will conduct a market analysis to identify new markets for Nepali lentil such as Pakistan, Sri Lanka, and the Middle East.

GINGER

Nepal is the fourth largest producer of ginger but ranked 11th in regards to earnings from ginger. NEAT identified multiple opportunities to leverage Nepal's potential. Eighty percent of fresh ginger exports are sent to India, yet quality standards and quarantine requirements pose significant challenges toward actually bringing fresh ginger to the market in India. Value addition is necessary to secure a reliable market for ginger export.

Promotion of GAPS in Ginger

- ✓ Line planting
- ✓ Mother rhizome harvesting
- ✓ Treatment of rhizome rot
- ✓ Organic

In the second quarter of year two, NEAT partnered with Annapurna Organic Agriculture Industries (AOAI), a private company based in western Nepal, to scale up their ginger processing and value addition activities (washing, peeling, slicing and powder processing) and marketing of ginger. AOAI has completed training and orientation in organic ginger production, and internal control systems (ICS) and has entered into contract production with over 2,800 farmers from Palpa, Gulmi, Arghakanchi, Dang, Rolpa, Pyuthan, Rukum and Salyan districts. The processing plant will be completed before the next season begins, but AOAI's purchase of raw ginger and sales of ginger products are already increasing. AOAI intends to purchase, process and market 6,000 MT annually of ginger in coming years, which is an increase from the 500 MT they processed annually before NEAT's support.

Contract Farming an Emerging Trend

Contract farming depends on a regulatory framework to protect the farmer and the buyer, but it also requires trust from both parties. As this is a new trend in Nepal, there is great uncertainty over pricing and how neighboring markets such as India could influence market price. Yet if processors want to enter niche markets, such as organic tea, where farmers need to invest in inputs and improve production practices then contract farming could be the solution for meeting demand. NEAT's support to Annapurna Organic resulted in contract farming of smallholder farmers for ginger production. There is potential for future arrangements in sectors such as organic tea and lentil. However, both farmers and buyers must be equipped with market information and a sense of trust to enter into the preconditions required for contract farming.

Khatpar Aroma Industries, another private company, is receiving support for a washing pond, store and distillation unit for ginger oil production. In the first season, KA produced 96 kg/ltr of ginger oil which was sold in France, Switzerland, and in the domestic market.

NEAT improved the production practices of more than 11,000 farmers in Midwest Nepal, the second largest producing area of ginger, through three organizations:

- MADE promotes quality practices in production and seed production. MADE has improved market linkages through buyers and producers meetings. Also, it has conducted training for ginger collectors in quality standards.
- PPSDC has introduced improved production techniques through 50 demonstration plots, twice as many plots as their grant target of 25. In addition, PPSDC has introduced ginger drying processing techniques.
- FOPA, an organization led and managed by Dalits, introduced GAPs in ginger including improved plant protection and harvesting techniques on 81 plots.

Many of the 2,800 farmers contracted by AOAI are among the farmers trained by MADE, PPSDC, and FOPA.

NEAT also supports processing and value addition techniques such as drying ginger and using low cost storage facilities to allow farmers to preserve quality and sell at a better price. NEAT's first ginger season will conclude in December 2012 and additional productivity, sales, and export figures will be reported in fiscal year 2013.

VEGETABLES

In Nepal, demand for vegetables is high year round, especially in urban centers. There is a significant scope for import substitution, price premiums, and export potential for vegetables in the off season. NEAT began working around Katmandu and the Butwal markets and collection centers in 20 districts in crops such as tomato, cauliflower, onion, and chili. NEAT is partnering with USC, INSAN, KIDS, and Madan Pokhra to increase production of more than twenty vegetables that have high market potential.

Promotion of GAPS in Vegetables

- ✓ Improved varieties
- ✓ Planting methods
- ✓ Plastic tunnels

NEAT partnered with the Federation of Fruits and Vegetables Entrepreneurs Nepal (FEVEN) in developing volunteer quality standards for seven vegetables, and provided training to nearly 200 vegetable producers in four collection centers. The value addition of the farmers who have started adopting the standards is more than 10 percent. FEVEN works with four collection centers and has linked them directly with the Kalimati wholesale market. In addition, FEVEN is operating a call system where traders can inquire on the daily market price at Kalimati market from six in the morning until five in the evening. They currently receive around 45 calls per day.

IMPROVING STANDARDS, ACCESS TO MARKETS, AND ENTERPRISE SKILLS

Volunteer Quality Standards Disseminated

Due to the lack of formal quality standards, post harvest losses were high, and farmers were not aware of the real costs involved in transporting goods to market. In order to increase awareness about quality and pricing, and in an effort to bring farmers and traders together to discuss and understand how quality affects pricing, commodity-specific volunteer quality standards for ginger, fresh vegetables and lentils were developed jointly with commodity associations NGPTA, FEVEN and ANROPI. These standards were piloted and disseminated in 2012. Pictorial posters have been developed for wider dissemination. The Federation of Fruits and Vegetables Entrepreneurs Nepal is conducting training to promote the standards and other post harvest practices. The voluntary standards have been welcomed by the members of commodity associations and producers in-order to reduce losses and increase quality and thereby competitiveness in the market. Adoption of voluntary standards is a significant milestone in promoting quality produce based on market requirements.

"Farmers are showing a very positive response towards the quality standards. Before, farmers would get a low price for their ginger and they did not know why. Now that they are aware and know how to maintain the quality they earn more. Farmers seem to be encouraged and they tend to work even harder."

-Narendra K Khadka, Chairperson
Nepal Ginger Producers and
Traders Association

Bulking and Marketing

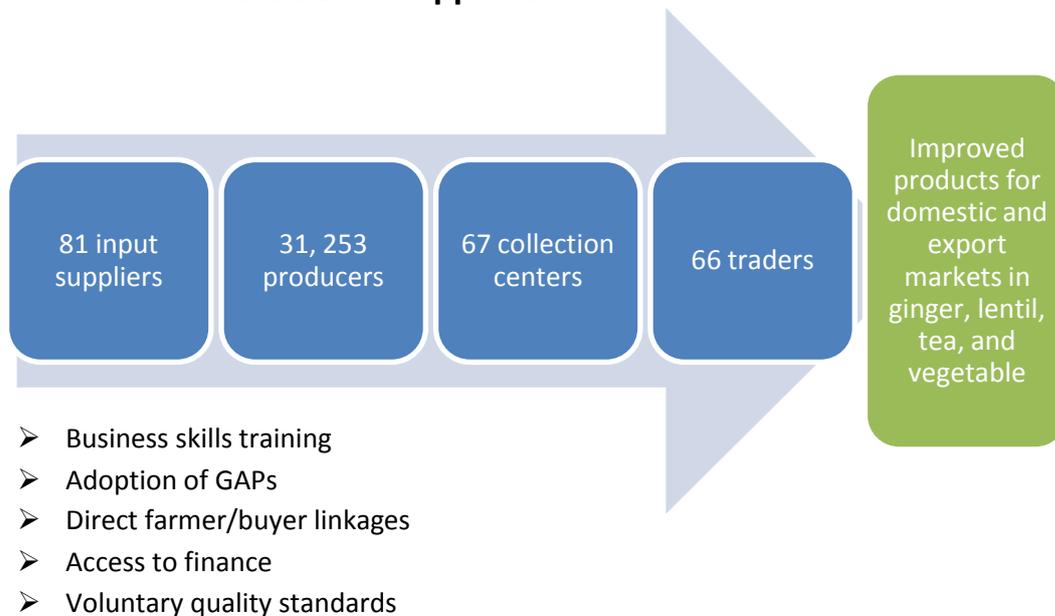
NEAT has supported the establishment or upgrading of 65 collection centers. Support includes improved collection center facilities and infrastructure construction. During quarter three of fiscal year 2012, a three-day collection center management training package developed and was rolled out in 42 vegetable collection/market centers. These centers collectively work with more than 1,000 producers per day and process more than 41,645 MT per year. A total of 322 executives were trained in management, market linkages, and operational rules and regulations from 11 districts in the west, mid-west and far western development regions. At the end of the training each center prepared a three year marketing plan. In the fourth quarter, representatives also participated in an exposure visit to selected national and Indian border vegetable markets. NEAT assisted each of the 42 centers in preparing a three-year business/marketing plan.

Collection Centers	
Orthodox tea:	14
Lentil:	17
Ginger:	8
Vegetable:	26

Agriculture Enterprise

NEAT supported the adaptation of a customized Nepali training package to enhance enterprise/business skills of producers, input suppliers and traders. In year two, fifty facilitators were trained and certified, to train producers and agrovets. To date, more than 4,000 producers, 50 input suppliers and 25 traders have received the training. The training aims to increase market-led production and create business linkages and trust between different value chain actors.

NEAT's Value Chain Approach



III. B: Lessons Learned

Market linkages are the key to sustainability. NEAT uses a market-driven approach that identifies opportunities for producers to sell in the market while also improving production practices. In addition to establishing or upgrading more than 65 collection centers to make markets more accessible to rural populations, NEAT also worked on voluntary standards to improve the quality of goods in the market. Traders have linked directly with farmers and both have seen improvements in the sale price because of the improved quality of crops.



SUCCESS STORY SPOTLIGHT

Bringing the Market to Farmers

Transporting tea leaves to the factory is a time consuming responsibility for smallholder farmers. They have to pluck the leaves and carry them to a tea factory everyday, which is often a long distance away. If the tea leaves are not delivered on time, the leaves get damaged which decreases the quality and price.

NEAT partnered with Nepal Small Tea Producers Limited (NESTPROL), a tea factory in Ilam, in constructing nine collection centers in 2012 (eight are complete, and one is 70 percent complete). NEAT supported Laligurans Farmers Group group with materials for building the center and the members of this cooperative provided the labor.

Today, about 80 farmers come to the collection center at Gogane VDC, Kanyam, Ilam every day with their tea leaves. Tea leaves are weighed at the collection center and farmers are paid NPR 40 per kg. In addition to the payment to the individual farmers, the cooperative receives NPR 5 per kg, of which one NPR goes to the farmer's account and the rest goes towards management fees. *"I have been in tea farming for ten years but I never got involved in any group. But after this collection*

"This is the perfect location for the collection center. It is in the middle of the village and it doesn't take much effort for the farmers to come here and deposit their tea leaves,"

-Lilaldhar Khatiwada, Chairperson
Gogane Tea Producers'
Cooperative

center came into operation, tea transportation has become easy for farmers and I also came to know the benefits of being in a group," said Yuvraj Paudel, a tea farmer.

The construction of collection centers has not only helped the farmers, it has also helped maintain the quality of tea for NESTPROL. The collection center opens at 2pm, and at the end of the day the tea leaves are taken to the factory. Since there is enough space to spread the tea leaves in the collection center, they can now store the tea leaves for a whole day if they are unable to transport the leaves to the factory. The daily collection from this center averages between 800kg- 1000 kg. *"We have already noticed the improvement in tea quality since the collection center has been operational. Before the farmers kept the tea leaves in the sack for hours, and it would be fermented from the heat by the time it arrived at our factory. We had to refuse to take such leaves, and we felt bad for farmers. But now, we are getting fresh leaves. There hasn't been a single case of refusal so far,"* said Poonam Rai. In addition, the cooperative is planning to use this center for vegetable collection during off season.



III. C: Milestones- Competitiveness

Milestones	Annual Target	Year 2 Progress	Comments
FBOs receive training in business and marketing skills	100	195	4,072 producers have been trained in these FBOs.
Input suppliers trained	150	81	This number does not include an addition 66 traders who also received training. Agrovets from Dang, Surkhet, Dailekh, Jajrkot districts will be trained by December 2012.
LRP (Local Resources Persons) trained	200	381	66 FORWARD, 73 Kids, 81 FOPA, MADE 121, PPSDC 40
Linkage workshops conducted	10	15	8 ginger and 7 vegetable workshops
Training manuals and posters on commodity specific norms and standards finalized and disseminated	4	7	7 posters created (vegetables- 6, ginger- 1) and 7 manuals on voluntary standards.
Lentil farmers receive training in GAPs	15,000	12,444	Remaining will be trained in the second crop cycle.
Lentil demo sites established	1,500	1,326	Remaining will be implemented in second crop cycle.
Lentil collection centers supported/upgraded	15	16	4 centers under construction and the rest have been supported with metal bins and equipment.
STTA post harvest report produced	1	1	Completed reference guide to post harvest handlings of vegetables and grains.
Tea farmers from 4 districts receive training	4,000	4,338	
Tea collection centers established or improved	22	15	The remaining 7 will be established in FY 2013.
Tea farmers adopt organic tea production processes	1,000	1,097	HSTP, Gorkha Tea, and Hariyali jaibik
Existing small tea processing units upgraded and processors trained	10	10	All up grading completed and training was provided in first week of October 2012.
Public awareness campaign on pesticide practices for tea launched	1	1	Campaign through tea calendar publication and tea news broadcasting program on FM radio
US tea tour to Nepal organized	1	1	
Prospective tea buyers visit Nepal	50	1	

Ginger demo sites established	300	366	PPSDC: 50 FOPA 83 and MADE production demo plot 121, ginger seed demo plot 102, AOAI 6.
Ginger producers trained	5,000	11,243	MADE, FOPA, PPSDC
Ginger collection centers established or upgraded	7	5	PPSDC 3,MADE 2, and Nawalparasi and Syangja will be completed in October 2012
Improved ginger processing facilities established	5	1	AOAI
Ginger producers/buyers meetings held	5	8	PPSDC 1, MADE 3, Palpa 1,Salyan 1,Ilam 2.
Ginger marketing exposure visits held	2	2	PPSDC- 1; and MADE- 1
Demo sites for vegetables established	500	1,344	FORWARD, INSAN, KIDS
Vegetable farmers trained	3,000	11,292	This number includes farmers trained by NEAT grantees (10,651) and those trained directly by NEAT technicians (641).
Vegetable collection centers supported	23	26	Kids- 7; USC-4; INSAN-8; FEVEN-3; Manadpokhara-1
Vegetable producer/buyer meetings held	5	7	INSAN-6,FEVEN-1
Vegetable marketing exposure visits held	2	3	ABTRACO-2; FEVEN-1

IV. PIR 3: FOOD SECURITY ENHANCED

Challenge:

Nepal is a food-deficit country, and most families are subsistence farmers. Access to quality inputs, markets, and finance poses significant challenges for smallholder farmers in Nepal. Smallholder farmers have a lot to lose and are hesitant to take on risk or adopt new technologies. In many cases, smallholder production does not meet household food or economic needs.

Approach:

- Promote sustainable, improved production practices in targeted food insecure districts and in specific commodities
- Implement a cost share approach to accessing inputs on a declining basis that encourages farmers as they begin to invest more in their land
- Encourage livestock production for landless farmers
- Encourage crop diversification for increased income and nutrition
- Improve input delivery systems
- Enhance market linkages
- Support research and field testing for new varieties of resistant seed

2012 Key Results:

- 5, 991 new and continuing hectares under improved management practices or technologies
- 911 irrigation systems installed covering 2,078 hectares
- 28,426 people received intensive productivity or livestock management training
- 1,304 groups strengthened
- \$4,953,276 increase in farmer sales after two crop seasons
- 75 new technologies or management practices under field testing



“I used to grow cereal crops. When we formed this group, and NEAT trained us on vegetable farming, I thought vegetable farming was not going to work because I never tried it before. In fact no one did. Now I have no doubts.”

-Prema Chaudhary
A female farmer from Kailai

IV. A: Accomplishments and Results

Under the food security component, NEAT is working intensely with food insecure and disadvantaged households with a model that increases farmer investment and decreases project support over time. NEAT enrolls farmers in phases (see box below), and tracks changes in behavior and income throughout the farmers' involvement in the program.

As we know, vulnerable populations may be risk averse, as they have more to lose if they fail. The NEAT approach supports 26,405 farmers in making incremental changes and taking calculated risks. The phased approach demonstrates to farmers that new

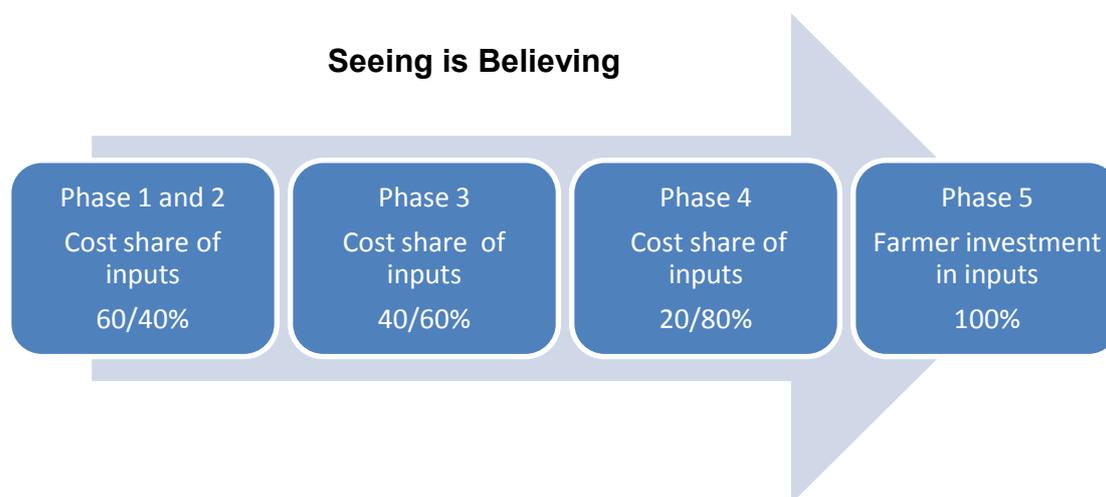
technologies and increased investments are directly linked with their increased yield and income. Increases in the numbers of farmers diversifying into vegetable, farmer sales, and area under improved technologies directly correlate with the length of farmer involvement in the program and continues to improve over time. As farmers are seeing change, they are investing more in their land. In addition, NEAT facilitates sustainable linkages between food security farmers and other key value chain actors including input suppliers, traders, and microfinance institutions.

New Farmers Enrolled in Each Phase

<i>Phase One:</i>	13,454 new farmers
<i>Phase Two:</i>	14,111 new farmers
<i>Phase Three:</i>	95 new farmers

The NEAT Activity will be implemented through five production cycles. Farmers who enrolled in NEAT during phase one will remain in the program for five production cycles; phase two for four production cycles, and phase three for three production cycles respectively. During the fifth production cycle all farmers are responsible for 100% of the investment in inputs. At the close of year two, NEAT is no longer adding new farmers into the program. Our experience in years one and two confirms that a higher return on investment will be gained from continuing to work with existing farmers from phases one, two, and three in a rigorous manner. To date, NEAT has supported 1,304 farmer groups and 28,096 food insecure households (crops: 26,924 and livestock: 1,172). As the program wraps up phase three and is about to enter phase four, 97% of all farmers enrolled during the first three phases are still active in the program.

Seeing is Believing



FOOD SECURITY PRODUCTIVITY TRAININGS

Capacity building of farmers and farmer groups is at the heart of NEAT's food security program. In addition, the district teams are responsible for leveraging other project resources to link food security farmers with input suppliers, collection centers, traders and microfinance institutions. These linkages are the key to sustainability beyond the life of NEAT.

NEAT organizes trainings in the application of improved technologies and farmer field days during each crop cycle. NEAT field technicians go beyond just delivering training. They visit each farmer's group once a month and serve as a resource on technical issues throughout the program. If a farmer faces issues around crop disease, production techniques, or market information- the NEAT field technician supplies the knowledge and resources needed.

NEAT selected 10 crops that have potential to improve food security through increased income, secure food supply, or nutritional value. NEAT supported crops include: rice, wheat, maize, tomato, cauliflower, cabbage, chilies, cowpea, cucumber and onion. Illustrative trainings offered during year two include:

Illustrative Technologies Introduced by NEAT

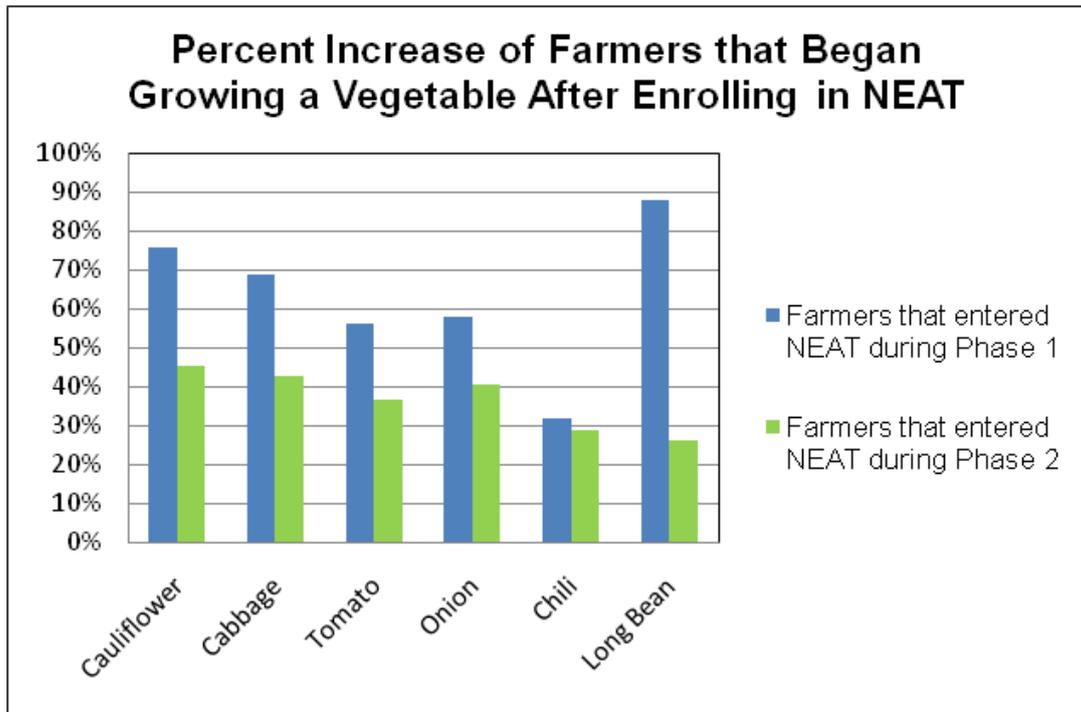
- Vegetables grown in raised beds
- Line sowing in nursery beds
- Timely and proper land preparation
- Use of proper and balanced doses of farm yard manure and chemical fertilizers
- Row-to-row planting
- Plant-to-plant spacing to get optimum plant population
- Adoption of furrow irrigation to save water and to save plants from water injury

Crop Production Trainings	Female	Male	Total
Community Agriculture Facilitator training	28	40	68
Compost demonstration training	15,050	6,225	21,275
Farmers' field days visit	1,700	866	2,566
Leaders farmers training	433	454	887
Nursery management training	25,937	12,020	37,957
Post harvesting and market management training	25,874	10,929	36,803
Production Management Training (multiple training components)	33,687	14,626	48,313
Training on Group management skills	12,701	5,557	18,258

Compost Training: Access to fertilizer can be unpredictable. Thus, to improve soil fertility NEAT substantially increased the number of compost making trainings to include all farmers. NEAT also introduced techniques such as intercropping cowpea and maize just before flowering, which results in improved soil fertility.

In order to promote crop diversification for increased income and improved nutrition, NEAT technical staff encouraged farmers to grow vegetables that are in demand in

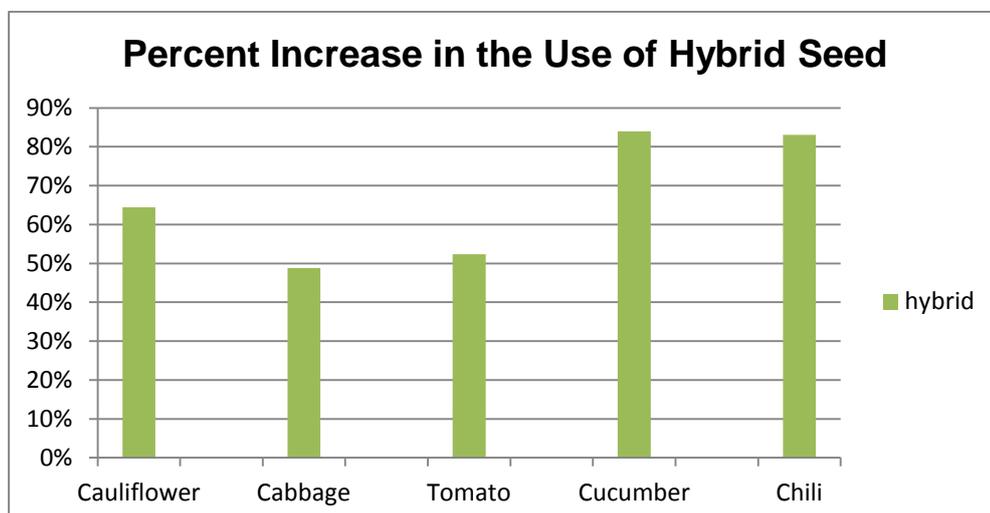
the market and to increase the area under vegetable production. As seen in the graph below, the longer farmers participate in the program the more likely they are to diversify into vegetable and their confidence increases.



SUSTAINABILITY

There are a number of indicators that signal farmers are seeing improvements; that they are comfortable taking risks on their own; and that they are likely to sustain these improved practices.

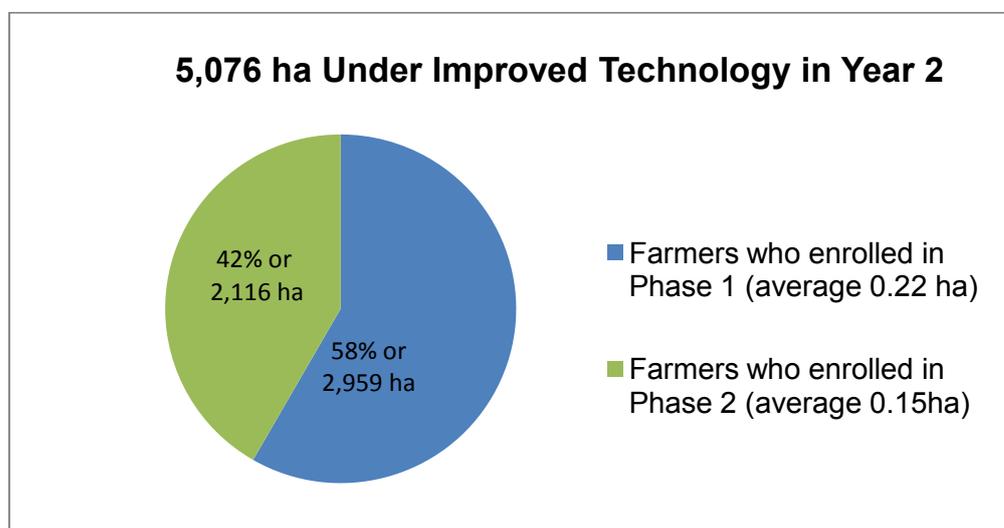
Farmers investing more in inputs: NEAT has supported farmers in accessing quality inputs for 0.1 ha of land. In year two, we have seen that farmers are investing in inputs for more than 0.1 ha of land. Farmers who entered in phase one have expanded the use of improved technology on to 0.22 ha on average. In addition, we have seen the overall number of farmers using improved or hybrid seed has increased.



Farmers earning more from the sale of vegetables: Many households are subsistence farmers- mainly growing cereal crops and some vegetable for consumption. With a lack of access to markets, growing vegetables-perishable crops- for the market can be a big risk for food insecure households. By linking farmers to markets and traders and helping them gather and understand market information, more farmers are comfortable taking a risk and growing vegetable for consumption and for sale. In year two, farmers have seen a significant increase in sales from vegetable.

Crop	Increased Sales (USD)
Paddy	\$ 501,544
Wheat	\$ 361,336
Maize	\$ 22,126
Total Cereal	\$ 885,006
Tomato	\$ 709,354
Cauliflower	\$ 826,704
Cabbage	\$ 561,938
Green Chili	\$ 456,803
Long Bean	\$ 400,042
Cucumber	\$ 289,209
Onion	\$ 824,220
Total Vegetable	\$ 4,068,270
Total Increased Sales	\$ 4,953,276

Farmers adopting new technology on more land: Farmers are using these improved practices and inputs on more land. NEAT’s cost sharing approach only covers 0.1 ha of land per farmer. However, farmers are using improved seed, fertilizer, or new management practices on more of their land. During year two, we have seen a significant increase in farmers growing more vegetables and of farmers who are adopting improved technology on their land. Forty-seven percent of farmers who entered in phase one began adopting trellising for vegetables after working with NEAT and 86% began composting. As illustrated in the chart below, the area of land farmers adopt new practices on is higher with those farmers who have been enrolled in NEAT for more than one phase.





A Gender Inclusive Approach to Food Security

Empowering women leads to improved nutritional status and food security, thus women are an integral part of our success. Yet Nepal is full of diverse cultures, and in some areas, women are unable to access agriculture extension services or education because their cultural norms state that they should not attend trainings led by men. To overcome this issue, NEAT has engaged women field technicians or community agriculture facilitators in every district and sensitized male field staff to take gender inclusive approaches.

Bishnu Bhattarai, a 21-year-old female field technician for the USAID-NEAT Activity, is training disadvantaged women in a Muslim community in Puraina VDC in Banke district. She aims to build their confidence and give them an opportunity to contribute to household farming in ways they were unable to previously.

When Bishnu joined NEAT back in May 2011, only 20 female Muslim participants showed their interest in joining a group. *“When I went to the Muslim community for the first time to encourage females to join the group, they were hesitant and seemed scared,”* recalls Bishnu. After repeated visits to the community and coaxing, some women agreed to join the group if their family allowed. *“It was not that the women lacked interest. In fact, they were highly enthusiastic to join the group but it was their family and social circle that did not allow women to come to the forward,”* said Bishnu.

After discovering why Muslim women were hesitant to join the group, Bishnu Bhattarai started to focus more on the women’s family. *“Convincing the families was not easy,”* said Bishnu. Looking back at the initial phase, she remembers all the effort she put into convincing families that they would benefit by allowing their female members to join. Eventually 73 Muslim women joined groups. It was certainly difficult to change conventional thoughts, but it was not impossible. At first women remained mostly silent, but today they actively participate in discussion and knowledge sharing. They make significant contributions to farming and as a result they have a voice in their household. In addition, men have begun to see the value of the women’s contributions in the household as a result of the program.

IRRIGATION

The lack of irrigation is a major constraint to improved productivity. NEAT began working directly with farmer groups to plan where irrigation systems could be most beneficial. Farmer groups identified the areas that would receive irrigation and provided the labor necessary to complete the irrigation schemes. The Nepali irrigation installation technicians (mistries) that NEAT has trained have found employment using their skills by providing these services to other households (see box).

This year, NEAT has exceeded the annual target of 900 irrigation systems with the completion of 911 systems in all 14 food security districts. At the end of year two, more than 2,000 hectares are newly irrigated and close to 18,000 households have access to irrigation. The remaining 318 irrigation systems planned will be installed by November 2012. Furthermore, NEAT and beneficiary farmer groups leveraged funds from district and local government authorities and other stakeholders in nine hill districts to provide irrigation systems.

Demand-Driven Skills Training

Bindeshwor Tharu and Sukhdev Chaudhary were trained by NEAT to install shallow tube wells. They installed 17 shallow tube wells for NEAT farmer groups. After the training and exposure provided by NEAT, their services were in demand. Bindeshwor has already installed four more shallow tube wells, and Shukhdev has installed three more wells. Both of them are earning nearly double the amount they were earning previously for their work, as the quality of their skills has improved significantly.

GROUP TRAINING

In years one and two, NEAT formed new groups, and in year two, NEAT has strengthened new and existing groups. NEAT provided group management skills—which promotes block farming, encouraged collective negotiations, and has linked groups to traders or collection centers. NEAT will continue to focus on linking farmer groups to markets in year three as part of the project’s sustainability plan.

“Working alone and working in a group makes a lot of difference. In a group a farmer is more strong and confident. All the farmers are doing equally well, and we can take care of our own needs.”

-Shyam Lal Chaundhar
A Temhi Group Farmer

NEAT is discovering that these groups are working together to solve their own problems. In year one, NEAT helped form the Temhi Farmer group and worked with farmers on transitioning into commercial vegetable farming. As the group started growing more, they realized they desperately needed a road in their VDC. However the government was unable to provide the road. The group joined together and donated 24,000 NPR for the materials and constructed the one kilometer road themselves.

LIVESTOCK MANAGEMENT TRAINING

NEAT's livestock management program engages landless food insecure households in raising goat, poultry, or pig. Livestock production provides a unique opportunity to increase income and household consumption of nutritious food products. In year two, NEAT distributed 668 goats to 344 households, 319 pigs to 188 households, and 8,850 poultry to 192 households. NEAT supports farmers with enough livestock to begin breeding (about 30 percent of the cost) and training, and the farmer invests in food, shelter, veterinary services (approximately 70 percent of the cost). NEAT is pleased to report that goats distributed during the first production cycle have started kidding and pigs have started breeding with an average litter size of nine.

Livestock Trainings	Female	Male	Total
Goat farming training	443	73	516
Integrated livestock management training	188	55	243
Pig farming training	230	29	259
Poultry farming training	232	82	314
Training on repair and maintenance	38	371	409

In addition to NEAT's livestock program; NEAT supports Heifer International's livestock management and kitchen garden activities. To date, 325 farmers have received integrated livestock management training, 291 families are raising goats and 91 families are raising swine. After receiving a raining on forage and fodder 325 group members have started planting on their homestead. In addition, Heifer provided homestead kitchen garden training and now more than 175 households are growing vegetables for household consumption. Additionally, 13 women's groups are operating savings programs for their members.

Breeding Hope: From Landless to Poultry Business

After working in Bhairahawa Poultry Farm as a helper for five long years, in early 2011 Mani Ram Chaudhary came back to his village in Duruwa VDC, Kothari, Dang with a plan to start his own poultry business. He only had NPR 10,000 in cash. *"Back then I did not have enough cash and I had my family to feed. I had neither an income source to start my business nor a piece of land to invest. It seemed like all doors were closed for me,"* recalled Chaudhary.

In November 2011, NEAT provided Chaudhary with 50 chicks and the cooperative gave him a 35,000 NPR loan which he used to buy an additional 100 chickens. Besides providing chicks to landless farmers like Mani Ram Chaudhary, NEAT also helped them by providing relevant trainings on caring and breeding and disease prevention.

From 150 chickens, the number of chickens grew up to 1,375 chickens and then, Mani Ram started selling them at NPR 180 per kilogram (for live chicks) and NPR 240 per kilogram (for meat).

In Duruwa VDC with 200 households, Mani Ram Chaudhary is the only chicken supplier. Noticing his progress, others have also started similar businesses of supplying pork and buffalo. He now has a good reputation in his community. People not only appreciate but also trust his work so much that they approach him to keep their chickens under his care. Mani Ram readily shares the knowledge he received from the NEAT trainings and his own experiences with other farmers.

AGRICULTURAL INNOVATIONS UNDER FIELD TESTING

Nearly all of the hybrid varieties and many improved varieties in Nepal are imported. In addition, many improved varieties that exist have not been adequately tested and assessed in field conditions throughout Nepal. NEAT supports field testing of new seed varieties through two partners: NARC-Lumle and the SEAN Seed Service Centre (SSSC). NEAT focused efforts on field research so that existing technologies can be made available to farmers during the project cycle.

NEAT partnered with SSSC in field testing the production of source seed and seed for commercial sale of six crops: tomato, maize, cucumber, broadleaf mustard, cauliflower, and radish (46 germplasms total). SSSC is producing first generation hybrid seed in tomato, maize, and cucumber. As part of this effort, SSSC is producing the first hybrid seeds produced by farmers at a commercial level in Nepal. Field tests have demonstrated that SSSC can fill a large gap in the local market and expand into new markets if it can continue to leverage the success of their NEAT supported field research.

SSSC selected crops and varieties with the highest potential for commercial sale in Nepal, border towns, and export markets. SSSC evaluated geographical areas that would be best suited for sourcing each type of seed, and then entered into a contract arrangement with farmers to source seed. SSSC is investing in farmers who are enthusiastic about switching to the production of source seed. It is a unique opportunity for farmers to have a 100 percent buy back guarantee and receive the technology and support needed to make this type of transition.

At the close of year two, a total of 1,771 kg of source seeds have been produced in radish, rayo, cucumber, cauliflower, and tomato. By June 2013, SSSC will surpass their goal of increasing the domestic supply of these particular seeds in the market by 20 percent.

Previously, nearly all hybrid maize seed was imported. SSSC is unable to fill the current demand for hybrid maize seed of their own 43 stockists with their locally produced hybrid maize. NEAT is supporting SSSC in meeting this demand and beginning to penetrate new markets in the upcoming year. SSSC has seen tremendous success with farmers producing hybrid maize seed for commercial production with their NEAT grant. As a result, SSSC is piloting a hybrid maize village in 2013 which will allow them to expand their market for hybrid maize seed. In hybrid maize, SSSC anticipates they will be able to increase the domestic supply of commercial seed by nearly 50 percent.

NARC-Lumle focuses on changing farmers' knowledge and perceptions about improved seed by conducting field tests and demonstration plots. The demonstration plots include new varieties and also show the difference in productivity between varieties for each crop. This allows farmers to see what variety grows well in conditions similar to their own farm and learn about the advantages of switching to improved and hybrid seed. District Agriculture Development Officers (DADO) are invited to participate in the demonstrations and help link farmers with improved seed after the demonstration period. Also, farmers are beginning to request the improved seed from their input supplier.

NARC will disseminate data and findings of their field trials in January 2013. These results will be made available to the private sector and DADOs so that they can support the dissemination of the improved varieties. NARC is conducting field testing in:

- 10 rice varieties, 5 maize varieties, 4 tomato varieties, 4 cabbage varieties, and 4 cauliflower varieties in four districts: Palpa, Pyuthan, and Salyan, and Argakhanchi.
- Off-season onion production demonstration in four districts: Salyan, Rukum, Rolpa, Dailekh.
- A large chili plot demonstration
- Ginger and maize intercropping in nine districts: Palpa, Arghakhanchi, Pyuthan Salyan, Rolpa, Rukum, Surkhet, Dailekh and Jajarkot.

In the final year of the project, NEAT will work with NARC to identify ways to disseminate technologies through the private sector. NARC produced the only registered tomato hybrid seed in Nepal, and NEAT is already supporting the field testing and dissemination of this variety through the project's partnership with SSSC.



SUCCESS STORY SPOTLIGHT

Cultivating Hope

Krishn Prasad Shrestha, a traditional farmer from Arghakhanchi, was only producing enough to feed his family for three months of the year. During the remaining months they had to buy food from the local store on credit- a humiliating experience. One day he heard that he could earn 1.5 lakh (or approximately \$1,770 USD) per month working in the USA. He decided this was his opportunity, so Krishna took a loan to pay the travel expenses. But the consultant who took Krishna's money was a fraud. He was crushed and heavily in debt. He knew he could not repay the money through farming. So he tried again to find work outside of Nepal, but ended up in even more debt. During this time, Krishna spent nine months away from his family. He could not conceive of going home with shame. One day he had no other option, and was compelled to return.

People in the community saw him as an example of greed. However, Krishna knew he had to start over and return to traditional farming. Then he heard about the NEAT Activity. Krishna knew other projects had distributed damaged seed to farmers and he was reluctant to join, as he could not afford to fail again. However, once he heard that NEAT worked on a cost share basis he decided to try the program. To his amazement the farmers unanimously elected him chairperson for the farmer's group. He finally felt accepted in his community.

Krishna did not want to take another big risk right away. So he started off growing improved rice during crop cycle one. It did not take long for Krishna to see improvements. As a lead farmer, Krishna received several trainings on nursery management, pest management, and plastic tunnels. In addition to improved farming methods, he also learned about market information and the potential to earn more by growing vegetables. In cycle two he diversified into cauliflower and cabbage. In cycle 3 he is growing chili and tomato because they are in high demand in the market. *"This is my first experience in vegetable farming and the production is amazing- I am earning three times what I was earning before."* Krishna feeds his family all year. With the extra income he is paying his children's education and he is starting to pay off his debt. Finally, Krishna knows he is on the right path.



IV. B: Lessons Learned

A practical approach to encouraging vulnerable farmers to take calculated risks is essential: Food insecure farmers often shy away from perceived risky investments and new practices. NEAT designed a phased approach to work with food insecure farmers that would allow them to take on increased risk over a period of time, during which they could witness the benefits of their investment. Farmers are used to seeing donor projects as giving away free handouts. This approach uses a cost sharing basis to support farmers on a declining basis rather than fostering dependency. In year two, farmers are seeing a positive return on investment in improved seed and fertilizer. Farmers have seen the value in diversifying into vegetable and have begun expanding the area they are growing vegetable (as noted in the results section above). In addition they have increased the land on which they are using improved inputs and technologies. Households that often struggled to sustain themselves day-to-day are starting to plan for the future by investing more in their land today.

Market linkages are the key to sustainable change: In many food insecure areas market collection centers are lacking. NEAT is working to create linkages between farmers groups and buyers directly to address the potential risk involved in diversifying into perishable crops. In addition, promoting block farming has allowed farmers to aggregate their produce to engage in collective bargaining, and buyers have reported that they are more willing to collect the goods and transport the goods to markets. Farmers report that they will continue to grow vegetable crops because they know there is a market for them.



IV. C: Milestones- Food Security

Milestones	Annual Target	Year 2 Progress	Comments
Farmer groups formed and trained	1,400	1,304	The target number of farmers was reached with 1,304 farmer groups.
Inputs provided to farmers' groups on cost-share basis	1,400	1,304	
Number of farmers who have adopted GAPs in wheat, rice, vegetable and maize.	26,500	26,412	
Households trained in free-range poultry management	500	314	NEAT and Heifer's livestock programs.
Households trained in swine production	300	350	NEAT and Heifer's livestock programs.
Households trained in goat management	400	807	NEAT and Heifer's livestock programs.
Improved composting techniques training delivered to farmer groups at the VDC level	1,400	1,319	Nearly all of NEAT's FS groups have been trained in composting techniques.
Irrigation systems made operational	900	911	NEAT has exceeded the annual target for irrigation.
Technology and innovation supported through R&D organizations	9	75	NARC and SSSC
Demonstration of three new technologies from a Nepalese R&D institution	3	10	Demonstrations under NARC and SSSC.
Two potential R&D partners identified	2	2	NARC and SSSC

V. PIR 4: ACCESS TO FINANCIAL SERVICES FOR WOMEN, THE POOR, AND DISADVANTAGED INCREASED

Challenge:

In order to have a vibrant agriculture sector, investors- from smallholder farmers to large traders- must have access to financial services. However, in Nepal, there is a lack of access to financial services throughout the country. For microenterprises and rural farmers, the lack of collateral and dependence on risky agriculture make it difficult to secure credit. In particular, women and disadvantaged groups (DAGs) lack access to financial services. The sector has become stagnant due to the lack of supportive policies and a lack of training/knowledge among service sector representatives.

Approach:

- Increase access to financial services for women, DAGs and rural populations through new branches and branchless banking
- Build capacity of microfinance institutions (MFIs)
- Develop innovative financial products
- Facilitate discussions and partnerships between stakeholders to advance the sector

2012 Key Results:

- NEAT hosted Nepal's first mobile financial services summit, bringing together stakeholders from throughout the microfinance sector
 - The NRB announced new e-regulations and affirmed support of MF sector
 - MOU signed between service provider and five financial institutions
- 8 new branches opened with NEAT support
- 710,000 USD in loans disbursed with NEAT support to 1,656 borrowers
- 2 innovations: branchless banking by making use of i) point of sale (POS) devices, and ii) through mobile phones



“Local money lenders charge heavy interest rates on loans. But with Mega Bank, the interest rate is comparatively low, and most importantly, it is trust worthy... Though we cannot read and write, we can hear and understand what has been done through voice confirmation from the POS machine.”

-Saraswoti Acharya
A farmer in the rural district of Sarlahi

V. A: Accomplishments and Results

The key objective of 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 been able to leverage opportunities in the sector by bringing stakeholders together for dialogue, focusing on innovation, and through relationships with key stakeholders, in particular, the regulatory authority, Nepal Rastra Bank. Partners are building on the momentum gained from the mobile money summit NEAT hosted in June. One challenge the project faced in 2012 was the Nirdhan Utthan Bank Ltd staff strike. Bank branch offices were closed for nearly a month in Q4. As a result, activities were delayed including savings mobilization, loan disbursement, and new product development.

Building the Capacity of the Microfinance Sector

NEAT supported the Centre for Self-Help Development (CSD) to develop and present training courses to MFIs and other financial institutions. With support from an international expert contracted by NEAT, CSD conducted a course on agriculture value chain finance in April/May 2012. Based on demand from the financial sector, this course was repeated three months later by local trainers in the local language. In response to recommendations from the Nepal Microfinance Bank Association (NMBA) and the Microfinance Association of Nepal (MIFAN), CSD also presented training on risk management for microfinance institutions.

Agriculture Value Chain Finance and Agricultural Lending Products

Nepal's financial institutions currently have excess liquidity, and as a result, are actively seeking new bankable clients. To assist financial institutions in identifying bankable opportunities, NEAT conducted a financial supply and demand study for the orthodox tea value chain. The findings were disseminated to stakeholders through a NEAT-sponsored workshop. Consequently, banks like Sunrise Bank and Global Bank expanded their lending business to small tea growers and processors.

Also, NEAT launched the first ever agriculture value chain finance training in Nepal, developed by international experts and delivered by training provider Centre for Self-help Development (CSD). This training was targeted mainly to financial institutions to help them meet the central bank's new mandatory 10 percent lending requirement in agriculture/energy sectors. Following the training, several banks designed new agricultural products, such as Sunrise Bank's Sunrise Krishi Karja (Sunrise Agriculture Loan), to boost agriculture portfolios. Others banks are seeking technical assistance from NEAT for product design for agriculture lending products. NEAT will support as many as five financial institutions to develop or refine agriculture finance products in year three.

Expanding Access to Financial Services in Rural Areas

Access to financial services in the rural areas of Nepal is severely limited. NEAT supported two microfinance institutions (MFIs), Nirdhan Utthan Bank Limited (NUBL) and United Youth Community (UNYC), to expand by opening eight new branches (NUBL- 6 and UNYC- 2) in underserved or un-served areas. These branches

are expected to reach 7,780 families during the grant period, and more than 16,000 families once the branches begin operating at full capacity.

MFIs have reached areas where there were previously no financial service available. As a result of NEAT's interventions, 1,656 new borrowers have taken out loans and 710,000 USD has been distributed in loans.

Mobile Financial Services

NEAT supported Mega Bank Nepal and Laxmi Bank Ltd to pilot branchless banking using point of sale (POS) devices and using mobile phones banking in selected areas. Laxmi Bank intends to serve 7,000 customers through its mobile phone banking program at 111 rural locations managed by 111 business correspondents (agents), and Mega Bank Nepal has a target to reach 8,100 customers through 45 branchless outlets using POS devices managed by 45 business correspondents. Laxmi Bank has already exceeded its target upon receiving approval from the NRB for nationwide expansion, and has signed an MOU with 111 business correspondents to manage cash transactions on behalf of Laxmi Bank in 111 rural locations spread over 11 districts. Mega Bank has started branchless banking at 16 rural sites in 11 districts managed by 16 business correspondents.

With these services, many rural villagers with no prior access to financial services now have the opportunity to open bank accounts. In addition, many no longer are compelled to travel for hours to the nearest bank branch office to pay their bills, often incurring costs greater than the bills themselves. Customers can also send money to or receive remittances from their families, and many can now take out loans to take advantage of income earning opportunities.

In addition to the pilot programs of Megabank and Laxmi Bank, NEAT organized a study tour to Pakistan for key mobile financial services stakeholders and conducted market research on the use of mobile phones and demand for financial services. NEAT also hosted Nepal's first Mobile Financial Services Summit in June 2012. The summit brought together local stakeholders and representatives from financial institutions, network operators, and technology firms from around the world.

Prompted to action by the summit, the NRB issued directives on e-regulations, granted approval for nation-wide operation of mobile phone banking and for expansion of branchless banking services to different parts of the country. Also during the summit, five financial institutions and a service provider signed an MOU to work together to scale up mobile/branchless banking activities.

V. B: Lessons Learned

In agriculture finance there is a role for small and large financial institutions. As became clear in NEAT's value chain finance training course, demand for financial services comes from smallholders—perhaps best served by cooperatives or MFIS—to processors and exporters often served by large commercial banks. To have an impact on the entire value chain in a particular sector the financial needs of all stakeholders must be addressed to ensure the competitiveness of the end product.

SUCCESS STORY SPOTLIGHT

Rural Farmers Gain Access to Finance and Inputs

Smallholder farmers often lack the finances to buy seed and fertilizer. A lack of microfinance services and financial literacy are common across Nepal, and are particularly challenging for disadvantaged populations. In an effort to extend microfinance services to underserved populations, and build on opportunities in mobile financial services, NEAT organized the Nepal Mobile Financial Services Summit in Katmandu. More than 140 participants mostly from Nepalese financial services, telecom and regulatory sectors were introduced to best practices from regulators, financial institutions, and mobile network operators from around the world.

"If not for NEAT's support of the pilot program with Laxmi Bank and the Mobile Financial Services Summit, we would not have been able to form a consortium of five financial institutions to work together on mobile financial services (within the Hello Paisa Network),"

-Sanjay Bahadur Shah, Executive Chairman of Finaccess.

After the summit, Finaccess and Nimbus Holdings entered into an agreement to enable dealers of Nimbus Holdings to act as a Hello Paisa Agents. Hello Paisa is a mobile financial services platform operated by Finaccess that enables banks and financial institutions to launch interoperable mobile financial services that take financial services to every corner of Nepal. *"We have been talking about our dealer network offering mobile financial services for 2-1/2 years and now finally, thanks to NEAT's support, it is moving forward,"* said Anand Bagaria, Managing Director of

Nimbus Holdings. Now, the partnership will work between Nimbus, Hello Paisa and a specific bank or multiple banks within the Hello Paisa Network. Financial transactions will take place through up to 500 Nimbus Input Supply Agents across Nepal by the end of the fiscal year.



The momentum of the summit also resulted in NRB Deputy Governor Maha Prasad Adhikari announcing new branchless and mobile banking regulations. With the efforts from the private sector and support from the GON, rural villagers will no longer have to trek for days to pay their bills and will have access to finance even in the most remote areas of the country.

V. C: Milestones- Microfinance

Milestones	Year 2 Target	Year 2 Progress	Comments
New microfinance product tested	1	0	Due to staff strike, NUBL activities are on hold; UNYC product development in process. International Agricultural Finance consultant coming to Nepal QTR 2 year 3 to work with 4 financial institutions to develop or refine product offerings.
Refined products rolled out by MFIs	3	0	Due to staff strike, NUBL activities are on hold; UNYC product development in process. International Agricultural Finance consultant coming to Nepal QTR 2 year 3 to work with 4 financial institutions to develop or refine product offerings.
Microfinance services available in Teraidistricts	5 districts	5	
Value chain finance arrangements facilitated in the tea sector	2	0	Agriculture Value Chain Finance training in QTR 3 helped participating banks in designing/refining their agriculture lending products, particularly for Sunrise Bank Ltd. and Global Bank Ltd. NEAT expects that the course will have positive impact in designing agriculture lending products to other participating institutions as well.
Branchless banking piloted	1 district	16	
Microfinance training partner selected	1	1	
Training courses prepared and delivered to MFIs	3	2	Risk Management and Replication of Agriculture Value Chain Finance were delivered. The third training course will be delivered in year 3.

VI. MONITORING AND EVALUATION

In June 2012 NEAT submitted a revised workplan and PMP for USAID's review. NEAT incorporated feedback from USAID and submitted a final draft of the PMP to USAID in July 2012. The majority of indicators in this PMP correspond to the previous NEAT PMP. Many of the revisions aligned indicator definitions with standard Feed the Future (FTF) definitions, so that NEAT results may be used for Mission level reporting. The revised PMP prioritizes reporting on meaningful impact indicators, so that USAID can evaluate the success of the project.

Fiscal year 2012 fourth quarter, annual, and cumulative progress toward project targets is reported in the table below. Please note the brief description on the reported results and NEAT's findings regarding three important indicators:

Indicator A: *Change in value of incremental sales in selected sectors.* As many of NEAT's indicators are related to agriculture productivity and the competitiveness of agriculture firms, our data collection efforts are aligned with the agriculture cycles for the 13 crops that NEAT supports. During this reporting period NEAT is able to present results from the following activities:

- *Component 2: Competitiveness Increased:* Incremental sales from farmers in the lentil program and off season vegetable program from the first growing season are included. However, the first tea and ginger harvest and sales period is ongoing. Thus, the results from these activities will be reported in the final report along with additional progress from the lentil and off season vegetable program.
- *Component 3: Food Security Enhanced:* Incremental sales figures from farmers during production cycle one and two are included in this report. Sales figures from production cycles three (currently ongoing) and four will be reported in the final report. In addition, initial livestock progress data has been reported. However, we expect a notable increase in sales from the livestock after kidding for swine and goat.

Indicator 2.3: *Value of exports in selected sub-sectors.* The initial results from the ginger and lentil sectors are included in this report. However, additional data will be gathered for ginger and lentil from this season, and tea export data is being collected now through the end of the project. In vegetables and ginger, many of the efforts in which NEAT has invested are contributing to import substitutes rather than the export market. NEAT believes this is an important finding that is not reported through the PMP. NEAT will be able to meet the current export target through firm exports and import substitution.

Indicator 3.1. *Prevalence of households with moderate or severe hunger.* NEAT has administered the standard tool to measure hunger during the baseline data collection and when collecting progress data. The findings from this experience indicate that this tool inquires about hunger in a direct manner, and as a result respondents may answer in a manner which is not always reflective of what the survey team observes on the ground. NEAT would like to undertake an end-line food security study which would

cover a range of indicators to demonstrate the impact of our activities on food security and hunger.

In order to ensure that all results from the NEAT activity are captured, the project has begun the planning process for end-line and impact surveys for our food security and microfinance components and for competitiveness grantee activities. These surveys will be implemented between November 2012 and May 2013. Furthermore, NEAT will continue conversations with USAID on how best to capture results attributed to the project that will not be realized until after the current contract end date of June 30, 2013. In August 2012, an M&E specialist joined the project to assist with scaling up data collection efforts and conducting end-line surveys during the final year.

In September 2012, USAID conducted a Data Quality Assessment of the project's M&E in Katmandu and Nepalgunj.

Indicator Number	Indicator	LOP Targets	LOP Actual To Date	Annual Progress	FY 12 Q4 Progress	Comments
Project Objective: Increased Economic Benefits and Food Security Enhanced						
A	Change in value of incremental sales in selected sectors (USD)	20,000,000	8,544,238	8,544,238	N/A	NEAT expects to meet this target in year 3. Disaggregated data by commodity is located in the annex.
B	Gross margin per unit of land, or selected product (Percent)	20	70	70	N/A	Food security farmers per 0.24 hectares of land.
C	Number hectares under improved technologies or management practices as a result of USG assistance	3,500	6,663	6,663	5,593	Food security farmers:5,593 hectares. FORWARD: 1,070.
D	Ease of Doing Business Rank	N/A	107	107	N/A	Baseline value-116. A decrease in score indicates improvement. Data is released in October. The October 2012 data will be reported in the final report.
E	Number of rural households benefitting directly from USG interventions	58,000	63,694	55,543	2,868	Component 2: 32,299. Component 3: 21,588. Component 5: 1,656.
F	Heritage Foundation Trade Freedom Score	N/A	61.5	61.5	N/A	Baseline value-61.4. An increase in score indicates improvement.
G	MCC Fiscal Policy Indicator	N/A	65%	65%	N/A	Baseline value-60%. An increase in score indicates improvement.
PIR 1: Economic Policies Strengthened						
1.1	Number of days required to register a business	26	29	29	N/A	Baseline-31. A decrease in score indicates improvement.
1.2	Average number of days required to trade goods across the border	38	41	41	N/A	Baseline-41. A decrease indicates improvement.

Indicator Number	Indicator	LOP Targets	LOP Actual To Date	Annual Progress	FY 12 Q4 Progress	Comments
1.3	Time to comply with taxes	304	326	326	N/A	Baseline-338. A decrease indicates improvement. Based on the progress of ABBS a significant decrease in time is expected in the near future.
1.4	Number of WTO requirements met with project assistance	4	1	1	N/A	The customs valuation manual. The Export Import Act; IEA; and Seed Act have all been drafted and submitted. The project anticipates meeting this target in 2013.
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	36	29	7	See annex for complete list.
	Stage 2: Drafted and presented for public/stakeholder consultation	36	30	27	5	See annex for complete list.
	Stage 3: Presented for legislation/executive consideration	27	19	15	4	See annex for complete list.
	Stage 4: Prepared with USG assistance passed/approved	10	9	8	6	See annex for complete list.
	Stage 5: Passed for which implementation has begun	10	3	3	0	See annex for complete list.
1.6	Number of participants in trade and investment or fiscal policy environment trainings	949	804	739	122	Men-707, Women-32.
1.7	Total change in revenue from VAT, income, excise and customs taxes (% increase)	20%	22.7%	22.7%	N/A	
Sub-IR 1.1: Advocacy and distribution of information improved						
1.2.1	Number of commodity associations/NGOSs strengthened in advocacy	3	3	3	N/A	FNCCI, CNI, and SEAN.

Indicator Number	Indicator	LOP Targets	LOP Actual To Date	Annual Progress	FY 12 Q4 Progress	Comments
1.2.2	Number of public-private dialogues events held	45	49	32	11	Regions: Central -19. Eastern-7. Western -6.
1.2.3	Number of participants in public-private dialogue	1,500	2,009	1,567	566	Men-1,415, Women-152. Regions: Central -1,111. Eastern -287. Western -101. Mid-western-65. Far-western-3.
1.2.4	Number hits accessing NEAT supported information portal	1,000	5,707	5,707	N/A	TEPC website
PIR 2: Competitiveness of Selected Sectors Increased						
2.1	Number of jobs attributed to FTF implementation	500	11.8	11.8	N/A	Laxmi-7, AOAI-3, Khaptar Aroma-1, M-Pokhara-0.25, INSAN-0.25 and Durga Dal Mill-0.25. Jobs will increase in the final year from the tea and microfinance sectors.
2.2	Change in value of value added in the selected sectors as a result of assistance (Percent)	15	Lentil: 10 Tomato: 61 Ginger: 42	Lentil: 10 Tomato: 61 Ginger: 42	N/A	Lentil: grading with sieving and color sorting. Tomato: cleaning, sorting and grading and handling with plastic crates. Ginger: oil extraction
2.3	Value of exports in selected sub-sectors (USD)	5,000,000	292,573	292,573	N/A	France, Switzerland, Germany, Bangladesh & Australia.
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	2,648	2,224	24	ABTRACO: 42, FEVEN: 4, FOPA: 86, FORWARD: 623, HEIFER: 13, INSAN: 54, KIDS: 75, KUMCL: 1, Madanpokhara: 1, MADE: 130, NEAT: 940, NGPTA: 1, PPSDC: 122, TEASEC: 50, USC: 64, JABAN: 18. The LOP to date figure has been revised to include Component 3 groups.
2.5	Number of individuals who have received USG-supported training	30,000	45,893	45,439	14,918	Men:20,859. Women:18,564.

Indicator Number	Indicator	LOP Targets	LOP Actual To Date	Annual Progress	FY 12 Q4 Progress	Comments
Sub-IR2.1. Production, processing, and market constraints addressed						
2.1.1	Number of improved production and processing processes and marketing approaches adopted	35	42	39	N/A	See annex for complete list.
Sub-IR 2.2: Linkages between lead firms, SMEs and microenterprises strengthened						
2.2.1	Number of MSMEs, including farmers, receiving business development services from USG assisted sources	25,000	11,117	11,117	N/A	Microfinance: 1,656, HURDEC: 4,219, ABTRACO: 337, AEC NGPTA: 118, AOAI: 3,007, FEVEN: 411, Madanpokhara: 67, FOPA: 1,249, JABAN: 53. Female: 6,274. Male: 4,843.
2.2.2	Number of microenterprises linked to larger scale firms as a result of USG assistance to the value chain	15,000	12,598	11,577	3,866	PPSDC 1,313, MADE 100, Khaptar Aroma 32, JABAN 53, FOPA 1,249, AOAI 3,007, FORWARD 1,809, NEAT 115, ABTRACO 322, USC 1,132, Madanpokhara 67, KIDS 438 INSAN 1,529, FEVEN 411.
2.2.3	Number of new or upgraded collection centers	40	65	65	34	Ginger: 8. Lentil: 17: Tea: 14. Vegetable: 26.
PIR 3: Food Security Enhanced						
3.1	Prevalence of households with moderate or severe hunger (percent decreased)	-30	0	0	N/A	See M&E section of the report.
3.2	Number of people who have received USG-supported short-term agricultural sector productivity and food security training	28,000	28,426	20,242	28	Men: 30%, Women:70% (LOP to date).
Sub-IR 3.1 Agricultural Productivity and Production Increased						
3.1.1	Number of farmers, who have applied new technologies or management practices as a result of USG assistance	27,000	27,984	27,984	0	Food security farmers: 27,659. Heifer: 325. Men: 31% Women: 69%

Indicator Number	Indicator	LOP Targets	LOP Actual To Date	Annual Progress	FY 12 Q4 Progress	Comments
Sub-IR 3.2: Agricultural innovations developed & disseminated						
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	0	Given the contract length, NEAT is focusing on bringing existing technologies to market through field testing.
	Phase II: under field testing as a result of USG assistance	30	75	75	47	NARC: cabbage-4, cauliflower-4, chilli-1, cucumber-1, maize-5, onion-1, rice-10, tomato-4, wheat-1. SSSC: broad leaf mustard-2, cauliflower-2, cucumber-6, maize-10, radish-2, tomato-22. See annex for complete list.
PIR4: Access to financial services for women, the poor & disadvantaged increased						
4.1	Value of new loans made by assisted microfinance organizations (USD)	1,800,000	712,661	712,661	457,817	UNYC- 61,168, Mega Bank-501,794, Nirdhan-30,348, Laxmi Bank-119,351.
4.2	Number of new borrowers from USG assisted microfinance institutions	7,000	1,656	1,656	1,011	Men-451, Women-1,205. UNYC-440, Mega Bank-821, Nirdhan-94, Laxmi Bank-301.
Sub-IR 4.1: Capacity of microfinance institutions and microfinance sector strengthened						
4.1.1	Number of supported microfinance innovations implemented	8	2	2	0	Mobile phone banking and branchless outlets.
4.1.2	Number of financial sector professionals trained on international standards	100	84	84	58	Men-74, Women-10.

VII. DELIVERABLES

September 2012

- Seed Registration and Compensation System Report

August 2012

- Technical Manual: Delivery of a Train the Trainers Course for Trade Data Analysis
- Report on the Status of Trade Data Collection, Availability, and Dissemination in Nepal
- Intellectual Property Rights Assessment Report
- Nepal Mobil Financial Services Market Research
- NEAT Mobil Financial Services Summit Report

July 2012

- Guide to Post-Harvest Handling of Vegetables and Grains
- Post-Harvest Consultancy Report
- Assessment of Savings and Credit Cooperatives in NEAT Food Security Hill Districts
- Agricultural Value Chain Finance Training: Final Report
- Final IPR Assessment Report

May 2012

- Agriculture Value Chain Finance Training: Final Report

April 2012

- Nepal: Investment Policy Considerations
- Guidelines for the Taxation of Income from Long-Term Contracts
- Analysis of Nepal Legislation with Respect to the Taxation of Long-Term Contracts
- Proposed Transfer Pricing Guidelines
- Analysis of Nepal Legislation with Respect to the Implementation of the Proposed Transfer Pricing Guidelines
- Assessment Report: Identification of Activities to Support and Strengthen Operations and Management Capacity of Agriculture Commodity Collection Centers In Selected Districts of Nepal
- Export Import Draft Act, Rules, and Procedures
- Export Import Act PPD Report: Nepalgunj, Birgunj, Biratnagar, and the Central Level (Kathmandu)
- Report on Draft Export Import Act and Associated Regulations and Procedures
- Final Nepal Tea Sector Assessment Report
- Tax Legislation in Nepal
- Final IPR Assessment Report: Review of Existing Legislation and Practice with Regards to Intellectual Property Right in Nepal
- Pakistan Branchless Banking Tour: Summary Report

March 2012

- Customs Valuation and Training: Biratnagar and Nepalgunj Report
- Nepal Organic Tea Assessment

- Collection Center Assessment Report

February 2012

- Environmental Compliance Plan
- Nepal Market Information System Assessment

January 2012

- Guidelines for the Attribution of Profits to Permanent Establishments
- Analysis of Nepal Legislation with Respect to the Implementation of the Proposed Guidelines for the Attribution of Profits to Permanent Establishments
- Establish of a Research and Policy Analysis Unit (RPAU) at the IRD Report
- Excise Taxes in Nepal Report

December 2011

- Value Chain Competitiveness Assessment for Selected Sectors

November 2011

- Annual Work Plan (revised for year 2)
- Accession to the World Trade Organization's Revised Kyoto Convention
- Impact of Transportation Monopoly
- Information Point Feasibility Study
- Nepal Organic Tea Assessment
- Public-Private Dialogues (PPDs) Proceedings Reports
- World Tea Expo East Report

October 2011

- ANSAB subsector reports

VIII. MANAGEMENT, SECURITY, AND ENVIRONMENTAL COMPLIANCE

VII. A: Management

At the request of USAID due to the availability of funding, the Food Security Advisor and Horticulture Specialist positions were phased off of the project in year two. The Food Security Manager and Value Chain Development Specialist have assumed these responsibilities. In addition NEAT's Food Security Manager took over the responsibilities of the Regional Manager position in Nepalgunj regional office and is currently dividing his time 70 percent in the regional office and 30 percent in the Katmandu office.

In June NEAT submitted a revised workplan and PMP to USAID for the final year of the project. In August the project held a productivity workshop with regional staff in Katmandu. The workshop focused on adapting activities in the final year of the project based on lessons learned from years one and two, and to promote sustainability.

VII. B: Security

During fiscal year 2012, NEAT has not experienced any security incidents or disturbances that have affected our work.

VII. C: Environmental Compliance

In fiscal year 2012, NEAT continued efforts at ensuring environmental compliance in the project activities. In January 2012, NEAT submitted the Environmental Compliance Plan (ECP) which established Framework Environmental Mitigation and Monitoring Plans for the following activities: agricultural productivity, small-scale construction, and small-scale irrigation. In conjunction with the ECP, NEAT identified the need to hire a civil engineer to monitor not only quality construction of small-scale construction under the grants program, but also undertake the environmental assessments of proposed construction sites. The civil engineer has worked closely with the grantees to help them identify alternative sites when it is deemed that the original site is not in accordance with the ECP. The ECP and PERSUAP (developed in FY2011) have been shared with all of NEAT's grantees who have activities that have potential environmental impacts. The grantees have been given on sight guidance of the ECP and PERSUAP through the NEAT technical focal persons as well as the civil engineer.

Some examples of our grantees' implementation of environmental standards can be found in our tea and ginger sectors. Although all grantees are promoting environmentally sound practices, the tea and ginger sector are moving towards organic production which includes a strong emphasis on environmentally sound agricultural production. The tea grantees are focusing efforts on organic production and have undertaken several awareness campaigns as well as training events to train farmers on organic tea production and safe pesticide use. For instance, grantee Nepal Small Tea Producers Limited has provided training to its cooperative members on environmental and social responsibility. Other tea grantees have trained farmers on internal control systems for organic tea cultivation as well as promoting the use of local medicinal plants as natural pesticides. Furthermore, several grantees have promoted composting and vermiculture as an alternative to chemical fertilizers.

The ginger sector is also moving towards more environmentally sound practices by implementing organic ginger production. The leader in this initiative under NEAT is Annapurna Organic Agriculture Industry (AOAI) which processes organic ginger products. AOAI has trained many of the 3,000 NEAT farmers on organic production as well as treating pest infestations with the safe use of bio-pesticides which are approved under NEAT's PERSUAP.

IX. FINANCIAL SUMMARY

Contract Value: \$22,552,144

Obligation: \$17,747,146

NEAT completed fiscal year 2012 with actual expenditures slightly under the annual budget projections. The difference in fiscal year 2012 expenditures and projections is partially attributed to lower actual expenditures billed to the contract due to a currency fluctuation that resulted in an exchange rate gain from our projections. In addition, NEAT was notified by USAID in the third quarter of fiscal year 2012 that the contract obligation may not be increased until fiscal year 2013, and that the project funding would be reduced. Thus NEAT postponed some non time-sensitive activities until fiscal year 2013; realigned project staff and workplan activities; and delayed all nonessential cost incurrence. As a result, NEAT will be able to successfully complete all activities with the remaining contract funds in fiscal year 2013. NEAT submitted a budget realignment to USAID for the final year of the contract.