

ASSESSING THE DEVELOPMENT IMPACT OF AID FOR TRADE PROJECTS IN ASIA AND THE PACIFIC

CASE STUDY FROM NEPAL

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INTRODUCTION

- Overview of Aid for Trade in Nepal
 - Nepal received the first TRTA/CB assistance from UNCTAD in 1997 for WTO accession
 - Support continued from UNDP, IF, EIF, many bilateral donors in areas of trade policy and strategy formulation, trade capacity building, implementation of WTO commitments, etc.
 - AFT commitments for Nepal on an increasing trend, but not uniform across all sectors (Table 1, next slide)





INTRODUCTION

Table 1: Global AfT commitments vis-à-vis Nepal, 2002-2005 and 2006-2012 (US\$ million, constant 2011 price)

| Sector/Time period | Global Average | | | Nepal Average | | |
|---|-----------------------------|-----------------------------|--------------|-----------------------------|-----------------------------|--------------|
| | 2002-05 (% of total AfT) | 2006-12 (% of total AfT) | Growth (%) | 2002-05 (% of total AfT) | 2006-12 (% of total AfT) | Growth (%) |
| <i>Economic infrastructure</i> | 19,676.78 (76.71) | 22,979.71 (68) | 16.78 | 83.12 (45.39) | 224.59 (66.91) | 170.19 |
| <i>Building productive capacity</i> | 5,317.06 (20.72) | 9,874.40 (29.21) | 85.71 | 99.90 (54.55) | 108.69 (32.38) | 8.79 |
| <i>Trade policies & regulations</i> | 656.31 (2.55) | 943.75 (2.79) | 43.79 | 0.09 (0.05) | 2.36 (0.70) | 2,522.22 |
| Total AfT | 25,650.1 | 33,797.86 | 31.76 | 183.11 | 335.64 | 83.29 |

Source: Calculations based on the OECD CRS database.





INTRODUCTION

Table 2: Aid for Trade commitments to Nepal, 2002-2012 (US\$ million, constant 2011 prices)

| Sector(s)/Time period | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Economic infrastructure | 66.08 | 140.43 | 16.11 | 109.86 | 147.69 | 136.94 | 140.32 | 246.73 | 321.92 | 275.59 | 302.97 |
| Transport & Storage | 17.97 | 5.66 | 5.64 | 65.16 | 79.07 | 48.89 | 84.85 | 138.19 | 220.49 | 103.45 | 150.88 |
| Communications | 0.46 | 3.07 | 0.89 | 1.07 | 0.63 | 3.06 | 2.09 | 0.83 | 0.88 | 1.27 | 1.51 |
| Energy | 47.66 | 131.70 | 9.58 | 43.63 | 67.99 | 85.00 | 53.38 | 107.71 | 100.54 | 170.87 | 150.58 |
| Building productive capacity | 71.30 | 63.23 | 174.83 | 90.24 | 83.44 | 90.97 | 68.13 | 65.31 | 139.40 | 171.37 | 142.22 |
| Banking & Financial Services | 24.85 | 29.15 | 96.67 | 0.48 | 1.57 | 1.03 | 2.59 | 7.84 | 64.88 | 5.66 | 2.01 |
| Business & Other Services | 0.56 | 1.21 | 4.45 | 3.14 | 0.75 | 3.60 | 11.15 | 1.70 | 3.12 | 4.76 | 2.65 |
| Agriculture | 43.43 | 25.09 | 50.03 | 84.07 | 79.16 | 82.33 | 32.99 | 27.41 | 32.98 | 123.60 | 110.12 |
| Forestry | 0.78 | 5.01 | 18.23 | 0.72 | 0.09 | 1.69 | 19.89 | 12.27 | 4.35 | 33.22 | 0.91 |
| Fishing | 0.00 | 0.00 | 0.03 | 0.01 | 0.34 | 0.23 | 0.19 | 0.06 | 0.36 | 0.50 | 3.43 |
| Industry | 1.20 | 1.49 | 4.56 | 0.50 | 1.11 | 1.60 | 1.06 | 15.87 | 3.62 | 3.56 | 22.71 |
| Mineral Resources & Mining | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Tourism | 0.47 | 1.29 | 0.85 | 1.31 | 0.42 | 0.49 | 0.26 | 0.16 | 30.09 | 0.06 | 0.39 |
| Trade Policies & Regulations | 0.05 | 0.07 | 0.17 | 0.08 | 3.04 | 0.11 | 1.20 | 2.75 | 1.12 | 5.62 | 2.65 |
| Total AFT | 137.42 | 203.71 | 191.11 | 200.17 | 234.18 | 228.02 | 209.64 | 314.79 | 462.44 | 452.58 | 447.83 |

Source: GECD CRS.



HIGH VALUE AGRICULTURE PROJECT

- A 6-year project being implemented by the Ministry of Agricultural Development since 2010, with support from IFAD. Netherlands Development Organization (SNV) and the Agro Enterprise Centre (AEC) of the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) are collaborators
- Goal: Poverty reduction, with emphasis on reduction of vulnerability of women and men in Nepal's Mid-Western Development Region (MWDR)—one of the least-developed regions of the country
- Aims to integrate the rural poor in high value agriculture and non-timber forest products (NTFPs)/medicinal and aromatic plants (MAPs) value chains and markets



HIGH VALUE AGRICULTURE PROJECT

- Project Components:
 - Pro-poor value chain development
 - Inclusion and support for value chain initiatives
 - Group formation and strengthening
 - Social and gender inclusion
 - Production/post-harvest support
 - Value chain fund
 - District participation and spatial inclusion
 - Project management
- The project is expected to benefit—directly and indirectly—about 52,000 households—about 20 percent of the population of 1.4 million people (256,750 households) in the project districts



HIGH VALUE AGRICULTURE PROJECT

- Financial arrangements

Table 3: Breakdown of total project cost

| | Government | SNV | IFAD loan | IFAD grant | Beneficiaries | Agribusinesses | Total |
|-------------------|------------|-------|--------------|---------------|---------------|----------------|----------|
| US\$('000) | 1,724.3 | 696.3 | 7,641.3 | 7,641.3 | 561.7 | 607.5 | 18,872.4 |
| Percent | 9.1 | 3.7 | 40.5 | 40.5 | 3 | 3.2 | 100 |

Table 4: Total project budget allocation

| Components | Total NPR (millions) | Total US\$ ('000) | Percentage of total base cost |
|---|-------------------------|-------------------|----------------------------------|
| Pro-Poor Value Chain Development | 232.9 | 2,986.4 | 17 |
| Inclusion and Support for Value Chain Initiatives | 760.5 | 9,749.5 | 57 |
| Project Management | 344.9 | 4,421.4 | 26 |
| Total Base Costs | 1,338.3 | 17,157.3 | 100 |
| Total Cost with Contingencies | 1,472.1 | 18,872.5 | 110 |



HIGH VALUE AGRICULTURE PROJECT

Analysis (based on four criteria of relevance, efficiency, effectiveness and sustainability)

- Relevance
 - The project in line with the following plans and policies. E.g.:
 - APP: Promotion of high value crops in hills and mountains; providing capital and other incentives and facilities to bring together industries and entrepreneurs and agricultural producers under a contractual production system; etc.
 - Tenth Plan: Production and commercialization of high value crops and commodities
 - TYIP: Development of agriculture value chain formally included for the first time in periodic plan document
 - Trade Policy: Commercialization of various agriculture products, including ginger
 - NTIS: Ginger as one of the identified products having export potential



HIGH VALUE AGRICULTURE PROJECT

- Efficiency
 - Evaluated on the basis of three sub-criteria: i) project design; ii) governance and management; and iii) project implementation.
 - Project design based on a pilot project, and value addition to earlier projects in terms of linking farmers with the market
 - Followed a consultative approach, and accepted many suggestions from stakeholders
 - Project Steering Committee and Project Management Unit actively discharging their functions
 - Project had a delayed start due to late appointment of the Project Manager
 - Unnecessary pressures have also resulted in delays and change in project modality



HIGH VALUE AGRICULTURE PROJECT

- Efficiency (contd...)
 - Staff not adequate, mainly in local NGOs, and technical staff have to cater to a large number of farmers' groups in diversified and remote locations
 - Internal monitoring and evaluation system in place: annual review, bi-monthly/quarterly reporting, bi-annual joint review by all entities involved in the project
 - The project unique in Nepal in many respects: producer-market linkage, subsidy to the private sector (small entrepreneurs);





HIGH VALUE AGRICULTURE PROJECT

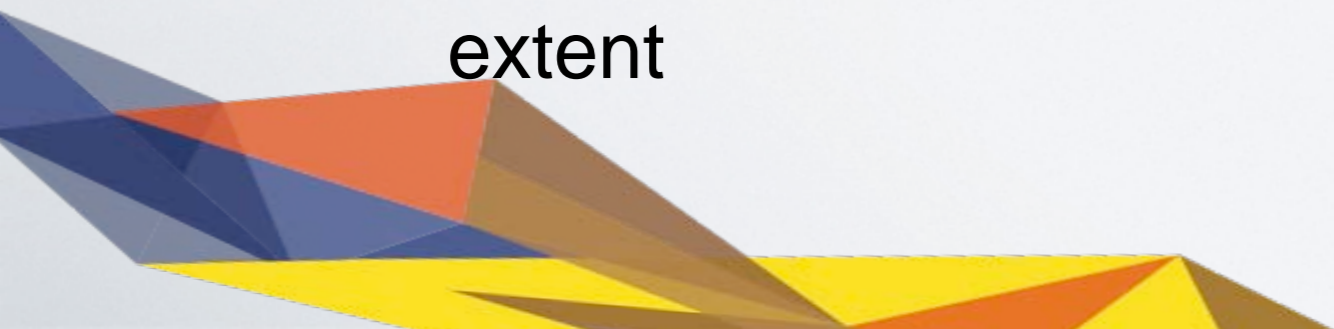
- Efficiency (contd...)
 - Beneficiaries pleased with the quality and usefulness of project activities, such as construction of a ginger storage facility in the village, trainings for ginger farming, links with agribusiness that exports ginger to European markets, provision of small-scale irrigation facilities, etc.
 - But there are problems too, such as difficulty in transporting vegetables to the market; contract breach; complex mechanism of preparing project application; the project not catering to the very poor and needy ones; etc.





HIGH VALUE AGRICULTURE PROJECT

- Effectiveness
 - Achievements till 15 July 2013
 - Financial achievement: 17.29%
 - Households covered: 3,166
 - Women beneficiaries: 17%
 - Annual average household income of beneficiaries: NPR 12,227 from an average baseline income of NPR 5,160
 - But achievements in a single FY 2012/13 good, meeting 73% of the set target
 - Project contributing to exports of a few items such as ginger and fresh vegetables, and import substitution of some products, such as vegetable seeds, though to a limited extent





HIGH VALUE AGRICULTURE PROJECT

- Sustainability
 - The project is led by the government, and it has involvement of local people and institutions.
 - The main focus of the project is on development of the entire value chain, which once established, would continue on its own for each actor in the chain would benefit from it.
 - Therefore, the project activities and outcomes seem sustainable even after the completion of the project.





MEDEP

- Micro Enterprise Development Programme (MEDEP) was initiated in 1998 by the UNDP in collaboration with the Government of Nepal in 10 districts
- Currently 3rd phase (2008-2014) in operation, and covers 38 districts. The focus of this study is on the 3rd phase
- Programme goal: Poverty reduction in rural areas through the development of micro enterprises in low-income households
- Main objectives: i) development of micro enterprises based on market potential and special needs of socially excluded groups to increase their income; and ii) mobilizing and increasing the capacity of government agencies and local organizations to create micro enterprise service mechanisms



MEDEP

- Participating organizations: Ministry of Industry (lead), UNDP, SNV, AEC, and several others
- Decentralized implementation modality: National Programme Support Office (NPSO)—Area Programme Support Office (APSO)—District Programme Implementation Office (DPIO)
- It works through Enterprise Development Supervisors (EDS), Enterprise Development Officers (EDO), Enterprise Development Facilitators (EDF), Social Mobilisers, etc.



MEDEP

- Financial arrangement
 - Started with UNDP's major support
 - In the 2nd phase, DFID, AusAID and NZAID were major donors
 - In the 3rd phase, UNDP, AusAID and CIDA are major donors

Table 5: Donor-wise allocation of MEDEP third phase

| Donors | Budget (US\$) |
|---------------|----------------------|
| AusAID | 13,115,468 |
| CIDA | 1,235,840 |
| CQU | 25,000 |
| Himal Power | 300,000 |
| UNDP | 8,563,713 |
| Total | 23,240,021 |



MEDEP

Analysis

- Relevance
 - The project in line with the following plans and policies
 - Periodic Plans: Explicit mention in the Ninth Plan that MEDEP would be initiated in 10 districts and 7,000 new micro enterprises would be created; Tenth Plan's recognition of micro enterprises' role in poverty alleviation; TYIP's explicit mention that MEDEP will be expanded to 75 districts
 - Industrial Policy: Vision to enhance competitive capacity of micro enterprises, and increase their market access and expansion; first priority to target groups as prescribed by the GoN to establish micro enterprises
 - Trade Policy: Inclusive trade development by creating employment opportunities for marginalized groups and deprived communities



MEDEP

Analysis

- Efficiency
 - The Programme was designed based on an earlier project “Training for Rural Employment (TRE)” that the MoI implemented with the UNDP. During the course of implementing the TRE project, it was felt that skill training has to be complemented by services required for enterprise creation and employment generation
 - Principle of implementation pluralism has been followed; thus, the Programme taking a coordinator’s role and linking it with as many institutions as possible to deliver a package of services
 - Monitoring done through internal reporting. The special monitoring unit of the UN also monitors the Programme, and independent external evaluators have also monitored the Programme in the past



MEDEP

Analysis

- Efficiency (contd...)
 - Problem in coordination between the lead agency (MoI) at the centre and implementing agency, mainly DEDC, on the ground
 - Longer approval process (MoLD-DEDC), inadequate staffing creating problems
 - Frequent transfer of government officials and staff turnover another problem
 - Political pressures, strikes, etc. cause problems in Programme implementation
 - Local implementing agencies complain of understaffing, saying that staff numbers are not increased even when there are increases in the number of newly created and promoted entrepreneurs



MEDEP

Analysis

- Efficiency (contd...)
 - Problems were also seen while procuring services, in fund disbursements, delays in budget release
 - The Programme has been criticized for having a very wide definition of entrepreneurs as it considers any menial activity as entrepreneurship. Beneficiaries also think that the Programme is too ambitious as it strives to develop entrepreneurship by means of a very short training and limited financial support
 - The two to four month duration for identification of beneficiaries and imparting them with entrepreneurial skills is considered to be too short, thus leading to the selection of relatively well-off person/household



MEDEP

Analysis

- Effectiveness
 - The Programme was successful in preparing Micro Enterprise Policy, Microfinance Policy, Honey Sub-sector Policy and Sub-contracting Policy. Most of these were finalized and submitted to the MoI
 - Effectiveness of the Programme regarding formation of micro entrepreneurs and scale-up activities is presented in table 6 (next slide)



MEDEP

Analysis

- Effectiveness (contd...)

Table 6: MEDEP performance indicators, targets and achievements in 2012

| S.N. | Indicator | Target | Progress |
|--|--|--------|----------|
| <i>Number of micro-entrepreneurs created and scaled up</i> | | | |
| 1.1 | • Number of micro-entrepreneurs created | 3,500 | 3,646 |
| 1.2 | • Number of micro-entrepreneurs scaled up | 2,500 | 5,975 |
| <i>Division of micro-entrepreneurs into different groups</i> | | | |
| 2.1 | • Janajati micro-entrepreneurs (%) | 40 | 41 |
| 2.2 | • Dalit micro-entrepreneurs (%) | 30 | 33 |
| 2.3 | • Youth micro-entrepreneurs (%) | 60 | 61 |
| 2.4 | • Women micro-entrepreneurs (%) | 60 | 79 |
| | <i>Increase in income of micro-entrepreneurs (%)</i> | 50 | 727 |
| | <i>Micro-entrepreneurs increasing their skills</i> | 7,000 | 8,194 |
| | <i>Number of jobs directly created by micro enterprises of new micro-entrepreneurs</i> | N/A | 3,871 |
| | <i>Net increase in per capita income of new micro-entrepreneurs</i> | N/A | US\$776 |
| | <i>Number of poor moving out of poverty</i> | N/A | 23,006 |
| | <i>Number of new and existing micro entrepreneurs with increased incomes</i> | N/A | 9,621 |



MEDEP

Analysis

- Effectiveness (contd...)
 - The Programme has been able to raise incomes, and bring about notable changes in food sufficiency and asset ownership, social empowerment, household conditions, as well as in physical, social and financial capitals of its beneficiaries
 - The Programme has been partially effective in getting the products it has been supporting marketed, mainly due to the small scale of production owing to the inability of getting necessary raw materials, particularly in forest-based products
 - The Programme has not been able to provide adequate entrepreneurial skills regarding product pricing, product selection, positioning and marketing. Therefore, many are operating at the local market level.
 - A few have grown and up-scaled to regional market-centres in the country and some are operating at the national level and beyond.



MEDEP

Analysis

- Effectiveness (contd...)
- Some products supported by the Programme are also being exported, though in limited quantity

Table 7: Export of products supported by MEDEP in select districts in 2013

| Products | Country | Total Amount |
|---|---------------------------------------|-----------------------|
| Green peas, strawberry, fresh ginger, handicraft, honey, incense stick, <i>laha</i> bangles, metal products (copper), <i>babiyo</i> (<i>Eulaliopsis binata</i>) rope, leaf plates, others—Indian bay leaf (<i>Cinnamomum tamala</i>), fish, candle, pater, off-season vegetables, <i>shyama panga</i> (traditional embroidery), NTFP (herbs), bamboo products | India and China | NPR 33,302,570 |
| <i>Mithila</i> Paintings | USA, Europe, Australia | NPR 125,000 |
| Wintergreen oil | Europe | NPR 3,645,000 |
| <i>Allo</i> (Himalayan nettle, Giant nettle) products | Canada, Europe, Russia, Australia, UK | NPR 5,521,000 |
| Leather products, Nepali paper products, Nepali butter tree herbal soap | Japan | NPR 10,736,000 |
| Himalayan nettle powder, <i>Chhurpi</i> (traditional Nepali cheese found in hard and soft form) | UK | NPR 11,234,500 |
| Wollen carpet, <i>dhaka</i> products | Various Countries | NPR 4,706,260 |
| Total in Nepalese Rupees | | NPR 472,270,330.00 |
| Total in US Dollars | | US\$722,703.30 |



MEDEP

Analysis

- Sustainability
 - With the government going to implement the Programme as MEDPA in all 75 districts of the country shows that the Programme is on a sustainable path
 - More local bodies are putting their money in the Programme
 - Majority of the enterprises that the Programme supported have scaled up and are active (table), but the challenge is to reduce the percentage of sick and dropped entrepreneurs

Table 11. Status of entrepreneurs and enterprises

| Entrepreneurs/ status | Number | Percent |
|--------------------------|---------------|--------------|
| Graduated | 499 | 0.9 |
| Active | 25,065 | 47.3 |
| Active but seasonal | 8,552 | 16.1 |
| Sick | 12,054 | 22.7 |
| Migrated | 1,170 | 2.2 |
| Death | 234 | 0.4 |
| Dropped-out | 5,478 | 10.3 |
| Total | 53,052 | 100.0 |



Conclusion

- The two selected projects, based on the broad definition of AfT, are AfT Projects, which show overall positive results
- The market linkage part that the projects are supposed to focus more on is relatively weak in both cases; hence there is a need for increased focus on this aspect in the coming days
- The selected projects are not representatives of all AfT projects; even a cursory observation at some other projects indicate that some changes are essential to make AfT more effective





Thank you for your attention!

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