

Market System and Private Sector Resilience during COVID-19

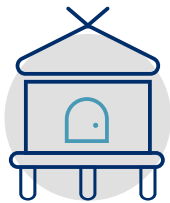
LESSONS FROM NEPAL

The COVID-19 pandemic has greatly affected Nepal's economy and continues to test the resilience of an already strained agricultural market system. This case study features interviews and data from the United States Agency for International Development's (USAID) Feed the Future Knowledge-Based Integrated Sustainable Agriculture (KISAN II) activity. The case study is based on information and discussions held before April 2021 and is not focused on the second wave of COVID-19 that unfolded in Nepal between May and August 2021, or events thereafter. The learning is intended to demonstrate how U.S. investments made before the pandemic contributed to the resilience of the market system and what shifts in programming might be needed to address new challenges emerging from the protracted global crisis.

USAID AND FEED THE FUTURE INVESTMENTS IN NEPAL

For 10 years, Feed the Future has supported the Government of Nepal (GON) to improve food security and economic opportunities using a market-led approach with an emphasis on greater engagement from the private sector. The flagship KISAN II activity works with over 150 private and public sector partners to increase resilience, inclusiveness, and sustainability of income growth within the Feed the Future zone of influence, connecting farmers to markets and building their market competitiveness.

FINDINGS SUGGEST THAT THESE EXISTING USAID INVESTMENTS CONTRIBUTED TO PARTNERS' RESILIENCE:



Ongoing efforts to increase Nepal's competitiveness in the rice sector and decrease reliance on imports.

Unable to source raw materials from India, rice millers were forced to rely on local farmers to meet the demand for this staple food.



Existing digital investments gained momentum.

The lockdown led to an uptick in branchless banking and digital wallets, as well as the USAID-supported national online seed catalogue, digital soil maps, and digital seed balance sheet.



Market systems approaches allowed for businesses to pivot more easily.

Businesses with diversified models and those that worked with a range of partners across the value chain were able to pivot more easily.

USAID's strong relations with local governments were critical to enable the private sector to adapt its business approach.

CONSIDERATIONS GOING FORWARD

Nurturing an enabling environment for growth-oriented policies.

Advancing growth with inclusion to ensure vulnerable groups do not fall further behind economically.

Expanding business development and access to financial services.

Ongoing monitoring learning and adapting.



Credit: Valérie Caldas, USAID Suaahara project

INTRODUCTION

The COVID-19 pandemic in 2020 and 2021 has taken a significant toll on Nepal’s economy, especially on the livelihoods of the informal sector,¹ and continues to test the resilience of an already strained agricultural market system. The World Bank’s most recent Development Update, published in April 2021, showed glimpses of optimism with estimations that if the vaccination rollout is successful and international tourism is able to resume gradually, Nepal can experience a subdued recovery with gross domestic product (GDP) projected to grow by 2.7 percent in Fiscal Year (FY) 2021 and 3.9 percent in FY 2022.² However, the most recent lockdown put in place on April 26, 2021, in response to the COVID-19 crisis unfolding in India and the subregion once again casts uncertainty and new health and economic concerns for Nepal.

Within a month under the restrictions first imposed in March 2020, over half of Nepal’s micro, small, and medium enterprises (MSMEs)—which contribute 22 percent to the country’s GDP, employing about 1.8 million people—were facing the risk of permanently closing their operations.³ A 2020 study suggests that the pandemic differentially affected subsistence- and market-based commercial farming systems.⁴ Traditional subsistence farmers who depend on local inputs appeared to be somewhat resilient during the crisis compared to commercial farmers, because

their produce is typically consumed at home or locally and they are less dependent on markets.⁴ Commercial or semicommercial farmers, who are typically located near the urban centers or around the periphery of cities and emerging towns, faced greater challenges as a result of a lack of resilient supply networks to reach the local market during the lockdown.⁴ What does this mean for the USAID Mission and implementing partners working to improve food security and market systems in Nepal?

In this case study, we explore the resilience the country’s market system showed during the pandemic in 2020 through the lens of United States Agency for International Development (USAID) resilience and food security investments in Nepal.

The document was developed based on information and discussions⁵ held before April 2021 and is not focused on the second wave of COVID-19 that unfolded in Nepal between May and August 2021, or events thereafter. The learning is intended to inform USAID and its implementing partners on how the Agency’s investments made before the pandemic are contributing to the resilience of the market system and what strategic shifts in programming might be needed for the medium term to address new challenges or market segments emerging from the protracted global crisis. Although the learning sheds light broadly on how activities can prepare for future crises or pandemics, this is not a focus of the document.

Country and activity context

Nepal's agriculture sector accounts for about a third of the country's GDP and provides livelihoods to over two-thirds of its population.⁶ Yet, more than half of Nepali households face food insecurity and 36 percent of children under five experience stunted growth.⁷ The underlying causes for these challenges are multidimensional—limited farmer access to agricultural inputs, technical know-how, infrastructure, and market opportunities—and complex cultural barriers—gender, ethnicity, and caste—that limit women's and marginalized groups' access to land, cash, and other assets.

For 10 years, the U.S. government's Feed the Future initiative has supported the Government of Nepal (GON) to improve food security and economic opportunities using a market-led approach, with an emphasis on greater engagement from the private sector. USAID's current flagship Feed the Future activity, Knowledge-Based Integrated Sustainable Agriculture (KISAN II), aims to increase resilience, inclusiveness, and sustainability of income growth within the Feed the Future zone of influence through a market systems approach. Working with over 150 small, medium, and large agribusiness/private sector partners (traders, agrovets,⁸ millers, and cooperatives), the GON's Ministry of Agriculture and Livestock Development (MOALD), and provincial and municipal governments, USAID KISAN II links farmers to markets and builds their capacity to participate in competitive markets. Under Feed the Future, USAID supports many partnerships and organizations to build the resilience of market systems, such as the Nepal Seed and Fertilizer Project (NSAF) and the Feed the Future Nepal Integrated Pest Management activity.⁹

A detailed line drawing of a corn cob, showing the individual kernels and the husk leaves, rendered in a dark blue color against the background.

70- 90%

**decrease in sales for traders
by August 2020.**



What were the immediate effects of COVID-19 on the market system?

The four-month, GON-imposed lockdown in March 2020 resulted in severe disruptions to the supply chain of agricultural commodities, bringing the agriculture sector in Nepal to a standstill amidst widespread initial chaos. The border closure with India, transportation and travel restrictions, and limited operating hours of stores with essential goods all had an immediate effect on market system actors and consumers alike. Agribusinesses were forced to shut down temporarily. Traders had limited access to inputs—especially high-yielding, hybrid rice and maize seeds imported from India—and farmers had limited

access to traders to bring their produce to markets and consumers faced challenges in accessing essential goods. One USAID KISAN II partner, an agroveter in the Dang district, described desperate farmers trying to purchase inputs in the middle of the night during the lockdown. He said of his experience during this time, “We were not able to comprehend the situation and during the first 2–3 days the situation was chaotic. Numerous farmers used to come to our store at 1–2 a.m. waiting in line to buy agri-inputs. As we were on strict orders to stay shut, we did not know how to serve them.”

Two rapid, qualitative assessments conducted by USAID KISAN II, and published in May¹⁰ and August¹¹ 2020, painted a grim picture of the immediate effects COVID-19 was having on its agribusiness partners, especially women and disadvantaged groups. Partners reported facing several challenges, including a decrease in sales (up to 60–80 percent for agrovets and 70–90 percent for traders) and profits, increased cost of conducting business (due to transportation, health, and safety precautions), reduced demand for fresh vegetables from commercial buyers and from consumers who began to rely more heavily on cereal staples that can be stored for longer, labor shortages and logistical difficulties, and cooperative members withdrawing their savings from the agricultural cooperatives to spend on consumables.⁹ According to USAID KISAN II staff, of the four types of partners it works with, agriculture cooperatives were affected the most, forcing many smaller cooperatives to merge to form larger cooperatives to stay afloat. Continuing on to say, “Cooperative members/farmers started withdrawing their savings to expend on consumables. They stopped paying for their installments on loans, stopped saving activities, stopped accessing other services from cooperatives such as input supply, mechanization, collection centers, etc. Due to that, cooperatives defaulted on their loans and many cooperatives folded during COVID-19.”

Marginalized farmers, especially women working in agriculture, face many existing systemic challenges. Structural and social barriers, including social isolation, lack of access to diverse information, financial resources, market networks, and limited arable land were intensified during this time. Two-thirds of female-headed households surveyed in the rapid assessment reported that their ability to earn money was worse than before the pandemic. These women were forced to use savings, borrow money, or plant on unclaimed land to feed their households.¹⁰

How is the market systems model facilitating recovery and contributing to private sector resilience during COVID-19?

One year after the March 2020 lockdown, despite the grim national forecast and outlook, farmers and agribusinesses partnering with USAID’s food security activities in Nepal appear to be recovering from the pandemic better than initially expected. Although the full effects of the pandemic will soon be clear, trends were positive before the new lockdown was reinstated in April 2021. For example, despite three months of lockdown, USAID KISAN II exceeded their FY 2020 annual yield targets for rice, maize,

lentils, and vegetables, as well as overall annual farm- and enterprise-level sales.

However, questions remain, such as: To what extent are these FY 2020 positive trends reflective of lagging indicators that would have emerged at this level regardless? Were the four months under lockdown a time of critical action to affect yield results? How variable are these

results across the different value chain actors? What drove some businesses to be able to adapt and pivot quicker than others and be more resilient to COVID-19? What aspects of the market system approach and other USAID investments were already in place that allowed some businesses to make rapid, tactical adjustments and leverage new opportunities in the face of COVID-19 disruption?



Credit: USAID Flickr

This section summarizes key informant⁵ perspectives on some of these questions with a focus on the ongoing USAID investments that have facilitated these positive developments and appear to be contributing to the market system resilience during the pandemic.

The GON and donors committed to scale ongoing U.S. government efforts to increase the country's competitiveness in the rice sector. Historically, Nepal has relied heavily on fine and medium rice imports to meet its domestic demand because its farmers cultivate mostly coarse rice using traditional methods, and most rice millers lack the facilities to process and market premium rice. The GON's efforts to increase its competitiveness of staple foods and decrease over-reliance on imports has become even more important during COVID-19.

When rice millers saw an increased demand resulting from the initial panic buying phase during lockdown, they had to rely on local farmers because they were unable to source raw materials from India. The USAID- and GON-supported Joint Rice Intervention Program helped meet this increased demand, replicating USAID KISAN II's proven model of partnering with commercial rice mills to transition from coarse to medium and fine rice production. In 2020, the MOALD and USAID scaled this model within the Joint Rice Intervention Program to six districts by partnering with eight private rice mills and three farmer cooperatives, with the goal of improving rice production for 8,000 farmers. USAID continues to support the MOALD to pilot the rice mill model in Nepal's major rice production areas that are outside the Feed the Future zone of influence. Other provinces and a donor have expressed interest in replicating the model to bring this effort to scale in Nepal.

COVID-19 accelerates digitization of market systems in Nepal. In support of the *2019 Digital Nepal Framework*,¹² Nepal's public sector has been prioritizing digital technologies to drive accelerated growth across eight sectors (digital foundation, agriculture, health, education, energy, tourism, finance, and urban infrastructure). USAID has been supporting digital financial services, data-driven agriculture, and digital information delivery through Digital Development for Feed the Future since 2016–2017.

Although these initiatives have been laying the foundation for digital sector growth within the agriculture sector, they have gained momentum since the onset of COVID 19; there was an uptick in branchless banking and digital wallet use among USAID KISAN II partners. The GON and the private sector have a renewed appreciation for efforts that were underway through USAID's Feed the Future NSAF activity, such as the national online seed catalogue, digital soil maps, or the digital seed balance sheet. The GON and seed businesses recognize that had these initiatives been in place and fully operational, all value chain actors would have been able to access information on seed demand and supply in real time—easing the disruptions the input market system faced, especially during the lockdown.

Market-driven approaches are key to shock-responsive programming. By their nature, private sector actors have a greater incentive to adapt business models quickly driven by bottom lines. For example, Kheti, an online delivery company that was already working with both business-to-business and business-to-consumer customers before the pandemic, was able to quickly pivot its business model during the lockdown. When the demand for produce from commercial clients, such as restaurants, went down, it switched its focus to delivery of essential goods directly to the consumer and was able to record profits greater than the prior year. USAID KISAN II's market-driven approach supported businesses to adapt and respond to market demands during this shock, while also ensuring consumers had continued access to inputs and goods.

Public-private sector coordination is critical for inclusive growth. USAID's strong relations with national, provincial, and municipal governments were critical to enabling the private sector to effectively adapt its business approach during COVID-19. Early in the shutdown, businesses that advocated to the GON for

essential service status were able to deliver essential supplies to farmers or directly to consumers' homes. The GON initially provided licenses to 15 companies in the Kathmandu Valley to operate during the March 2020 lockdown, and through KISAN II, USAID partnered with three of these companies. USAID connected the three companies to their farmer and cooperative networks so that they were able to purchase vegetables and deliver those vegetables to the consumers—and provided support for transportation and cool chambers to keep produce fresh.

Diversified business models prior to the pandemic were more resilient. During the pandemic, USAID partners also learned that reliance on their usual small, trusted network was not enough during the crisis. Businesses that worked with a diverse range of partners across the value chain were perceived to more easily be able to pivot as needed. USAID KISAN II was able to address this gap by leveraging its broad networks to support its partners. It did this by bringing new traders to farmers, connecting delivery companies to its network of farmers and cooperatives, and linking farmers and cooperatives to digital payment platforms and lending programs. The reach and customer base of companies were also criteria that the GON used to determine which businesses received essential service status to operate during the lockdown.

Engaging Small and Medium Enterprises (SMEs) across the market system drives growth and mitigates loss of livelihoods. As expected, small businesses were most affected by the pandemic. USAID KISAN II's medium- and large-size business partners that had access to capital, transportation, and digital infrastructure, and had greater adaptive capacity, were able to cope better during the shutdown. An agrovet owner interviewed for this case study, with access to capital and transportation, worked with the local government to receive a pass that allowed his staff and vehicles to deliver inputs to farmers in neighboring districts. By staying open during the lockdown and tapping into the customer base of businesses that were not open, this agribusiness reported an overall profit increase of 20 percent and an average of 15–20 percent increase in rice yields by some of its farmer customers during the lockdown.

What are the considerations for USAID/Nepal's resilience and food security programming going forward?

This case study highlighted that despite the challenges, several ongoing USAID investments contributed to the resilience of market system actors during the pandemic. The crisis also accelerated ongoing initiatives, such as the digitization of the market system and increasing the competitiveness of Nepal's staple foods. How can USAID build on this momentum as Nepal's market system continues to emerge from the protracted crisis? The following four program areas emerged for USAID's consideration in the medium term:

- 1. Nurturing an enabling environment for growth-oriented policies.** Although many of the market system shifts discussed in the case study are clear—such as the larger focus on the digital sector or increasing competitiveness of key sectors going forward—the enabling environment, especially government policies, will be a key driver for inclusive growth as Nepal recovers from this shock. This highlights the continued opportunity for USAID to support the GON with inclusive, growth-oriented policies that benefit farmers and other actors across the market system, especially in light of Nepal's shift from a centralized system of governance to a more decentralized, cooperative federal system.
- 2. Advancing growth with inclusion.** As USAID and its implementing partners leverage the momentum for market system growth, it will be even more critical to advance innovation and inclusive growth to prevent further marginalization of women and disadvantaged groups. A recent Local Works analysis on vulnerable communities found that women and disadvantaged groups that were more vulnerable before the earthquake were even more affected during COVID-19.¹³ As Nepal recovers from another monumental shock, USAID's investments have the opportunity to elevate programming and policies that directly benefit marginalized groups and address long standing equity gaps.

- 3. Expanding business development and access to financial services that increase the resilience of SMEs.** Until recently, the finance sources for SMEs in the agriculture market systems were limited. However, as these sources expand with mergers among commercial and development banks, and as equity investment picks up in Nepal, the need to support businesses to diversify their models will be important. This includes improving their organizational, digital, and institutional capacity and putting basic elements, such as articles of association, in place.
- 4. Continued monitoring.** The rapid assessments conducted by the Mission and KISAN II to monitor the effect COVID-19 has had on various U.S. government-supported market actors have provided valuable information to the GON, USAID, and its implementing partners during a challenging time. As other reports continue to emerge from other market system actors and donors, and as Nepal now emerges from the second major surge in COVID-19 cases which occurred between May and August 2021, continued analysis will help answer a core question that remains unanswered: Is the resilience that some of the USAID-supported market system actors experienced during COVID-19 temporary or will these positive trends be sustained over time?

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⁵ Discussions were conducted with staff from USAID/ Nepal, KISAN II, and two of its private sector partners between January and March 2021.

⁶ <https://www.usaid.gov/nepal/agriculture-and-food-security>

⁷ <https://www.feedthefuture.gov/country/nepal/>

⁸ An end-to-end supply store for farmers, dealing in seed, fertilizer, animal feed, veterinary supplies, etc.

⁹ Information about Feed the Future Nepal is available at: <https://www.feedthefuture.gov/country/nepal/#ourwork1>.

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