

MSR NEPAL CASE STUDY I

CATALYZING HEALTHY COMPETITION AND COOPERATION AMONG AGROVETS



Key Takeaways

- **Building effective and mutually beneficial relationships** along supply chains and networks is central to the quality of connectivity and how power is wielded. It also contributes to more useful cooperation and improved business strategies, **which lead to more resilient market systems.**
- **Commercial returns from relationships must be enough to overcome any counterincentives** in the market system: one reason why change tends to move faster in high-value crops.
- Business strategies focused on the value they deliver tend to catalyze changes in the competitive landscape, **favoring inclusive growth-oriented firms**, which can further reinforce cooperation and competition.
- This case study explores this process through the lens of USAID-funded programming in Nepal, such as the Feed the Future Knowledge-Based Integrated Sustainable Agriculture in Nepal (KISAN II) Activity and their efforts to catalyze more customer-oriented agrovets.



Ashok Pant, Pant Agrovets, Khajura. Photo Credit: Prasanna KC

Introduction

As the Nepali market system evolves to become more competitive, inclusive, and resilient, applying an analytical MSR lens highlights key trends and systemic change drivers. Observable positive trends emerge in market actor behavior in the agricultural input sector: most notably in how market actors compete, cooperate, and make decisions. As markets become more competitive, market actors are incentivized to compete and cooperate based on adding value rather than extracting value from each transaction.

This case study is one of three from a recent assessment on drivers of Market Systems Resilience (MSR) in Nepal. The assessment (conducted in early 2022 and available at www.agrilinks.org/msp) explored the market system's structure, which is understood by looking at various domains including the connectivity between actors, the diversity of market channels or business models, and power/rule of law concerns. The assessment also explored predominant behavioral norm domains which include a healthy balance of cooperation and competition,

decision making processes, and business strategies. This analysis highlights the state of MSR, or the ability of a system to respond to and manage shocks and stresses in a way that allows the market system to function sustainably, which in turn, supports household resilience.

USAID activity programming that can investigate and understand these competition and cooperation trends within Nepali society will be able to design and implement interventions that complement and accelerate these developments for improved resilience.

Shifting the competitive landscape

In the small town of Khajura in the Banke district of southwestern Nepal, Ashok Pant has been managing his small agrovret retail outlet and its associated plant nursery for 15 years. As part of the trend towards increased market competitiveness in Nepal, Mr. Pant has been steadily growing his business over the past few years in a manner that has solidified it into a central part of the agricultural market system. Through stocking and selling high-quality agricultural inputs and supporting his customers with informed technical support, Mr. Pant's loyal customer base is 6,000 households strong. Mr. Pant also acts as an agent for the Agricultural Development Bank, allowing customers to deposit and withdraw money at his branch.

USAID-funded programming, such as the Feed the Future Knowledge-Based Integrated Sustainable Agriculture in Nepal (KISAN II) Activity, complements these positive trends as it [catalyzes a shift in the business strategies of agrovrets away from solely capturing a margin to competing to deliver value to customers](#). With this approach, KISAN II is also helping to shift the Nepali competitive landscape, which is a substantial driver for systemic change. [Customer-oriented agrovrets signal to other agrovrets the commercial benefits of delivering value to customers. This signaling, thus quickens the pace of systemic change and leads to better returns on layering investments.](#)

Mr. Pant operates his agrovret as an extension of the community and as such, he recognizes the value in long term customer relationships and investing in their farming futures as a mutually beneficial commercial orientation. As healthy business practices like this become more mainstream, those actors focused on margin capture and extractive mindsets will increasingly become sanctioned by society and eventually fail to compete.

From an MSR perspective, these changes in the Nepali competitive landscape are evident in:

- **improved connectivity** along the retail distribution network, from importers to farmers;
- a **shift in power** toward the smallholder customer;
- **increased diversity** in product availability;
- improved **cooperation and competition** patterns; and
- business strategies that align **with inclusive growth**.

Healthy competition

The success of an agrovret is increasingly tied to the reputation of the individual owner, so the reputation of the services an agrovret provides is paramount to commercial competitiveness. Therefore, agrovrets are incentivized to compete based on brand value and quality assurance, with greater importance placed on cultivating and maintaining relationships with their customers, a key business retention practice. As a result, agrovrets increasingly understand the role of customer retention in scaling up their businesses and competing with other retail businesses offering similar products.

Healthy competition also occurs when agrovrets provide information, recommendations, and instructions on agricultural products, in addition to supplying agricultural inputs. This dissemination of information forms a service component where customers ask questions and validate product perceptions with the agrovret. Agrovrets who embrace and cultivate a customer-focused relationship can compete easily against those retail businesses only offering transactional, extractive, or one-off services. When USAID Activities, like KISAN II, actively encourage or incentivize value-based competition, the catalytic effect of the Activity's interventions will be internalized and retained by the market system.

As one of the eight domains in the MSR framework, [competition and how it manifests in a given context can be a key indicator of the level of resilience in a market system](#). If the level of market systems resilience in relation to competition is strong, then competition will drive innovation, and improve efficiency and attentiveness to customer needs, instead of undermining



Phulpati Chaudhary, Agro Vet, Dhangadhi. Photo Credit: Prasanna KC

other market actors. In Nepal's case, evidence shows that there is an emerging trend towards more positive competition taking place, therefore contributing to a more resilient agricultural input supply system.

Healthy cooperation

Another important and related behavioral domain from USAID's MSR Framework is [cooperation, which asks how market actors collaborate to achieve a common purpose or function](#).

When interacting with customers, relationships work best when they are not adversarial or orientated around margin capture. Along retail distribution chains, relationships should instead be oriented around healthy cooperation where agrovets or agri-machinery suppliers understand the needs of their customers and attempt to add value to the customers' farming practices. A relationship fueled by cooperation that adds value strengthens both the functional business relationship and the business performance of both entities. When cooperation between agrovets and customers is grounded in positive cooperation, like in the case of Mr. Pant, it can lead to more effective cooperation between market actors playing the same function. For example, Mr. Pant embedded in his business strategy a referral system between other agrovets in his area. Customers who sought a specific product or a service currently unavailable in the agrovets' store were referred to an

alternative supplier, if in fact the agrovets were not able to source the product themselves. This kind of cooperation generates added value for the customers (producers) who need the specific agricultural input for their farming productivity and are able to access what they need instead of being turned away empty-handed. Improved cooperation from agrovets to customers and between agrovets catalyzes shifts in the competitive landscape that lead to increased competitiveness, inclusivity, and resilience at the market system level.

Conclusion

This case outlines how market-oriented programmatic interventions, like KISAN II, are sensitive to the changing trends in Nepali society and have positively contributed to the competitive landscape. [Through promoting positive competition and cooperation in market systems in Nepal, USAID programming can contribute to an improved capacity for market systems to manage risks](#). In addition, there is a tendency for longer-term planning and strategic decision-making around stock levels, new product lines, or alternative suppliers by agrovets, meaning that the agricultural input supply sector can forecast demand through an active and ongoing relationship with its customer base. USAID-funded Activities that amplify this kind of forward-thinking and business growth behavior and seek to strengthen these firms' information capture and analysis capabilities will serve to build efficiencies in the market system.