

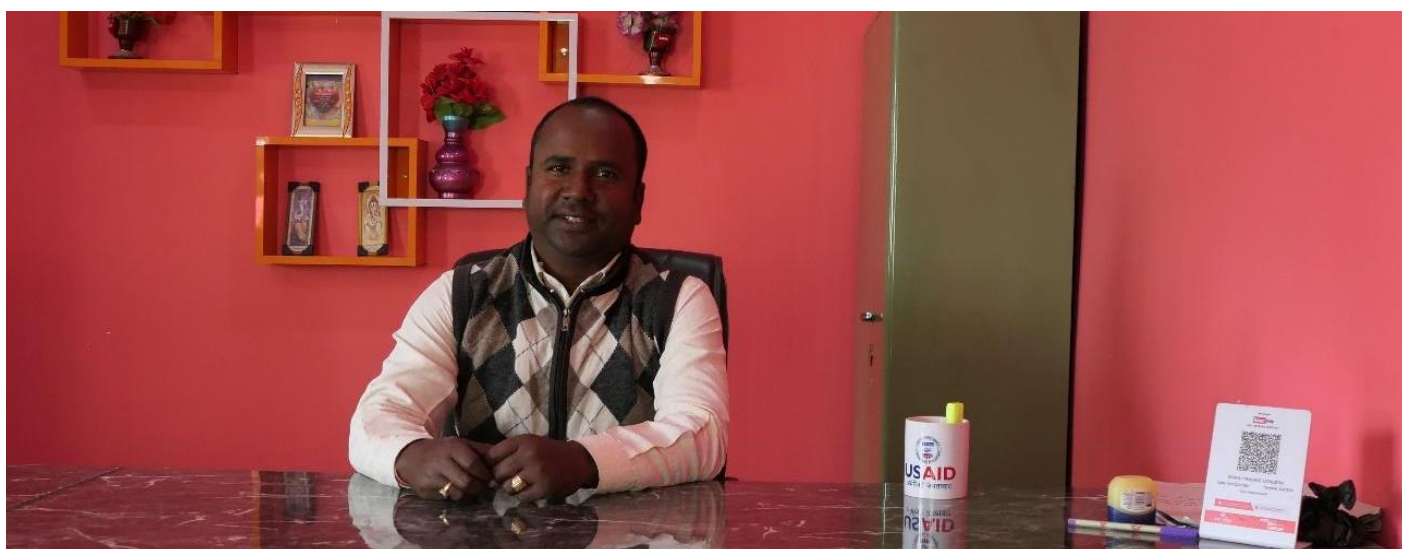
MSR NEPAL CASE STUDY 2

COOPERATION ALONG THE RICE VALUE CHAIN



Key Takeaways

- When **firms shift their mindset about interactions along value chains from adversarial to cooperative**, it not only benefits that firm, but the entire value-added process of the value chain.
- When development activities **recognize, catalyze, and then amplify these types of changes** in a market system, interventions can sit on the cusp of achieving significant change at the systems level.
- **Layering activity interventions within and across activities** in ways that are sensitive to systemic change trends is an important way to achieve value for money in MSD programming.
- This case study explores this process through the lens of USAID-funded programming in Nepal, such as KISAN II, PAHAL, and CSISA, and their efforts to catalyze more cooperation along the value chain.



Jawaharlal Sahu, Sahu Rice Mill. Photo Credit: Prasanna KC

Introduction

Rice millers in Nepal perform three major functions in the value chain: purchasing paddy, milling paddy, and selling rice and its by-products. A staple crop, the total annual demand for milled rice is estimated at 4.08 million tons against a production of 3.25 million tons.

The rice milling industry has a vital role in the rice value chain for product differentiation and value addition to paddy after the milling process to produce processed products such as polished, popped or beaten rice. Consumers in Nepal's urban cities and border towns prefer fine rice imported from India and pay a premium for it, while the farmers in Nepal generally only produce

coarse or medium fine rice, which is sent to the rural districts. Rice farmers' ability to operate profitably is limited due to minimal use of modern technology, limited access to knowledge about the market, and high production costs. The market system for the rice industry lacks resilience because it is operating in a volatile and generic commodity sector with little diversification. Although an important food crop, rice farmers can become equally less resilient because of low profitability and uncertainty in their farming model.

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 domain analysis highlights the state 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 the risks associated with low diversification in a market sector like rice will be able to design and implement interventions that complement and accelerate these developments for improved resilience.

Cooperation

Sahu Rice Mill is a small to medium-sized business operating out of Banke district in southwestern Nepal. It employs a handful of staff as well as seasonal laborers, and due to the importance of the rice industry, holds a central position in Nepali society. Sahu Rice Mill was a recipient of co-investment from the USAID-funded, Feed the Future Knowledge-Based Integrated Sustainable Agriculture in Nepal (KISAN II) Activity and has since been investing in suppliers to improve its competitive position.

As opposed to what has become the standard practice of farmers selling paddy immediately after harvest to fulfill their household cash requirements, Sahu Rice Mill began providing advances to mitigate urgent household consumption needs. These advances, in turn, allowed the farmers to participate in an improved value chain, resulting in the right price for their produce. The result of additional income and stability has [improved resilience among households because of their improved ability to diversify their coping mechanisms](#).

Because Sahu Rice Mill changed how it engaged with its supply chain and [saw the farmers not as adversaries but as co-contributors to a value-added sector](#), the rice mill gained the farmers' commercial loyalty, and they began selling regularly to the mill. Sahu Rice Mill continues to support rice farming communities both directly and indirectly to access quality inputs and extension services

delivered through the localized input supply system. As a result, the quantity of rice production has improved and, more importantly, the quality specifications required by Sahu Rice Mill to turn out higher-value products, like fine rice, has also improved. These improvements have resulted in regular and increased household income for the farmers.

Sahu Rice Mill has also invested in its own agronomic extension service to provide regular advisory services to farmers on sowing methods, use of fertilizers and inputs, and harvesting technology. In addition, the mill is exploring new options in its advance payment scheme to address farmer liquidity challenges. [Sahu Rice Mill was one of the early movers, but now joined by other mills, these firms testify to improved relationships and credibility with their suppliers](#), as evidenced by the increasing number of farmers they have worked with during the last few years. As a result, the mill continues to gain an assured supply from farmers through investment.

USAID programming synergies with trends in the system

Building on these foundational trends, KISAN II has been able to amplify Sahu Rice Mill's actions to influence how other rice millers engage their farmers as suppliers, improving each of their competitive positions. As the rice millers influenced earlier on by KISAN II have proven to generate solid growth, more rice millers are beginning to adopt better supply chain management practices. [As a result, the pace of systemic change has increased, improving the returns on layering USAID investments](#). With multiple rice millers targeting less vulnerable niche markets, a more resilient market system can emerge, building, in turn, the resilience of the farming communities that support it.

USAID-funded Activities have taken advantage of layering opportunities in this systemic change trend to [further program complimentary engagement](#) along the value chain. For example, while rice millers invested in these farmers as suppliers, KISAN II also worked with local agrovets to improve how they engaged poor farmers as customers. Predecessor programming, such as the Nepal Seed and Fertilizer Project (NSAF), had already built foundational skills among these farmers. In addition, the rice mills that KISAN II's co-investments initially supported were later provided with technical support by another complementary USAID investment,

the Cereal Systems Initiative for South Asia (CSISA). CSISA activities targeted sowing and harvesting technologies, which were then disseminated through their farming supply chains.

KISAN II also facilitated discussions between the rice mills and the government bodies, including Agriculture Knowledge Centers (AKCs), to inform and promote farmers' adaptation to fine rice. A joint rice implementation program (JRIP) was also implemented together with the AKC and after the positive result of JRIP, Government of Nepal also adopted this model in to

their program. AKCs are still today adopting the rice mill model in their annual plan, including promoting fine rice to farmers and creating buy-back linkages with rice mills.

Conclusion

As the rice sector has become more connected, cooperative, and competitive in a more value-added manner, resilience has increased in the sector itself and more broadly through the impact on integrated business services.



Daily wage laborer at Sahu Rice Mill, Banke. Photo Credit: Prasanna KC