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**High Mountain Agribusiness and Livelihood
Improvement Project (HIMALI: Grant 0248-NEP)**

**Technical Assistance Package 2
Agribusiness Capacity Development**

INCEPTION REPORT



Agrifood Consulting International

In association with



TAEC Consult P. Ltd.

PREFACE

This document¹ is the Inception Report for the *High Mountain Agribusiness and Livelihood Improvement Project (HIMALI: Grant 0248-NEP)* Technical Assistance Package 2 - Agribusiness Capacity Development. The Inception Report draws upon the consultations and review work conducted by the TA Team of consultants under the guidance of the Project Management Unit (PMU).

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ABBREVIATIONS

ACI	Agrifood Consulting International
ADB	Asian Development Bank
ADF	Asian Development Fund
AEC	Agro enterprise center
AGF	Agribusiness Grant Fund
CBO	Community based organization
CDDSS	Capacity Development District Specialists
CDP	Crop diversification project
CLDP	Community livestock development project
CQS	Consultant qualification selection
DCCIs	District Chambers of Commerce and Industry
DDC	District development committee
DFID	Department for International Development UK
DMF	Design and monitoring framework
DLS	Department of Livestock Services
DOA	Department of Agriculture
DPC	District project coordinator
EA	Executing agency
EARF	Environmental assessment and review framework
EMP	Environmental management plan
EOI	Expression of interest
FNCCI	Federation of Nepal Chambers of Commerce and Industry
GACAP	Governance and anticorruption action plan
GAC	Grant assessment committee
GDP	Gross domestic product
GESI	Gender equity and social inclusion plan
HIMALI	High Mountain Agribusiness and Livelihood Improvement Project
IA	Implementing agency
ICIMOD	International Center for Integrated Mountain Development
IEE	Initial environmental examination
LEP	Labor based, environmentally friendly and participatory procedure
MAPs	Medicinal and aromatic plant products
M&E	Monitoring and evaluation
MOAC	Ministry of Agriculture and Cooperatives
MOF	Ministry of Finance
NCB	National competitive bidding
NGO	Nongovernment organization
PAM	Project administration manual
PD	Project Director
PMU	Project management unit
PPTA	Project preparation technical assistance
QBS	Quality based selection
QCBS	Quality and cost based selection
SOE	Statement of expenditure
SPS	Safeguard policy statement
TA	Technical assistance
TL.P1	Team Leader /PMU and NGO Management Consultant, HIMALI TA Package 1
TL.P2	Team Leader /Agribusiness Capacity Development Expert, HIMALI TA Package 2
TOR	Terms of reference
USD	United States dollars

1 INTRODUCTION

1. The High Mountain Agricultural Livelihoods Improvement project (HIMALI) - ADB Grant 0248-NEP - has a projected life of six years. The project is designed to improve the material livelihoods of poor farmers in ten target Districts² through agro-based private-sector business development both at the farm level and throughout commercially-viable value chains based on and originating in agricultural, livestock, and forest products in the high mountain areas in these Districts. A central HIMALI mechanism is its Agribusiness Grant Fund (AGF), which will provide grants to private sector *business* (sub-) project proposers – i.e. commercial business proposals by farmers and other enterprises in the value chains. The AGF constitutes a large majority of HIMALI's total overall funding.
2. The project and its TA are based at the PMU set up in Kathmandu by the Executing Agency (EA), the Department of Livestock Services of MOAC, with a key role in implementation assigned to an important private-sector Implementation Agency (IA), the Agro-Enterprise Centre (AEC) of FNCCI. A complementary implementation role is envisaged for NGOs to be contracted by the PMU to work in each of the target Districts alongside AEC, with supporting roles also played by the several District-level sectoral offices of MOAC and other stakeholders including the District Chambers of Commerce and Industry (DCCIs).
3. The key focus of HIMALI is ***sustainable development and increase of incomes and livelihoods through the private sector.***

2 MAIN ACTIVITIES THUS FAR

4. HIMALI implementation commenced in February 2012 with the start-up of the PMU in its own office in Baluwatar, Kathmandu. By mid-February, TA Package 2, like the complementary TA Package 1, had commenced mobilization. One of the team of three Package 2 national consultants (Capacity Development District Specialists – CDDs) joined on 10 February. The international Team Leader /Agribusiness Capacity Development Expert (TL.P2) – the author of this Inception Report – joined on 17/18 February; and the remaining two CDDs on 1 March. Package 2 implementation is scheduled to be completed by 30 September 2013.
5. The post-mobilization substantive³ Package 2 activities to date have focused on:
 - i) a mutual familiarization process for working as a team with the PD (Project Director)/PMU and with Package 1;
 - ii) requests and follow-ups to the PMU for adequate office and other facilities and supplies for efficient TA implementation;
 - iii) participating with the PD and Package 1 in the HIMALI introductory presentations in Sankhuwasabha and Mustang target Districts;

² Sankhuwasabha, Solukhumbu, Dolakha, Rasuwa, Manang, Mustang, Dolpa, Jumla, Humla and Mugu

³ Activities focused on purely administrative details of setting-up Package 2 are mentioned in the Inception Report only when they bear significantly on achievement of, or hindrance to, the Package's operational goals.

- iv) CDDS desk research (secondary data collection and literature review) into conditions, including locally-relevant value chains with their opportunities and constraints, in some target Districts, and preparation of initial presentations thereon;
- v) meeting AEC , and follow-up with them to determine and if possible encourage the progress of their HIMALI staff recruitment;
- vi) review of the Package 2 operational budget over the entire implementation period to 30 September 2013;
- vii) preliminary work on realistic costing of some aspects of Package 2 operations, notably air travel and appropriate base-locations for the CDDSs;
- viii) meetings with the PMU on the project (PMU) budget and associated project activities planned for the remainder of FY 2011-2012, i.e. up to 15 July 2012;
- ix) starting to draft workshop training materials for building up agribusiness development capacity in the project’s implementing partners;
- x) and meetings with external stakeholders in the private, public, and international sectors in and around Kathmandu, to gather background information and start building useful business linkages.

6. Besides these activities, the agribusiness value chain studies produced by the HIMALI PPTA and other parties in Nepal have been reviewed by the TL.P2.

7. The PPTA studies, although conducted in only three ‘pilot Districts’ (Solukhumbu, Mustang, and Jumla) of the ten HIMALI target Districts, and dealing with only six value chains (apples, MAPs, off-season vegetables, vegetable seeds, wool, and yak cheese), reflect a thorough and systematic approach and contain a wealth of useful detail. Each of them covers, *inter alia*: the basic market/demand opportunities presented by the chain ; the relevant agro-climatic conditions in the pilot Districts, including the natural resource base; present production, post-harvest, and processing practices, strengths and weaknesses, including characteristics and organization of the farmers and other enterprises, and the supply of necessary inputs and technical services, plus costing of some aspects; trading patterns and routes, including export patterns and international trade regulations where relevant; packaging and transport, with costing of some aspects; pricing and margins, and competition, absent or present, at various stages; and identification of key ‘leverage’ (potential intervention) points and suggested public and private mechanisms for increasing the value generated in each chain, with particular emphasis on raising the value to be captured by the farmers and associated small enterprises actually living and working in the high mountain areas.

8. Much the same coverage, with more detail on market sizes and trends, is provided by a recent SNV report on value chain development of Jumla apples. On the other hand, the available studies of specific value chains by ICIMOD are not so detailed, are written from a social rather than a business standpoint, and moreover do not cover from a Nepali viewpoint value chains researched specifically in Nepali conditions.

9. Notwithstanding the considerable strengths of the PPTA and SNV studies, they have limitations from the standpoint of agribusiness development based on private enterprises. They are written as general agricultural development (sub-) sectoral exercises. Their very comprehensiveness reflects a laudable attempt to be ‘all things to all men’ and to generalize many of the characteristics they cover. They were not written as specific investment opportunity studies, with a narrowed-down focus and feasibility-appraisals of (sub-) project investment opportunities and production and marketing plans. They do not usually give much quantitative detail on overall market demand and trends (the SNV study being an exception to this rule) or on the shares of various product-types and market actors within that demand. They do not place any great emphasis on productive business linkages between enterprises in the chains or on further fostering such linkages. And they provide

hardly any details of 'business case studies' of specific enterprises or cooperative private (or private-public) initiatives which could be used as examples – favorable or otherwise - in training courses, workshops, and mentoring aimed at raising agribusiness development capacity focused on the private sector. That said, these studies do provide a valuable reference-source and check-list for the chains they cover, which may be useful in building the capacity of the AEC District Specialists to review value chains locally and (perhaps) assist some business proposers – farmers and others – to assess their specific opportunities and prepare business plans.

3 COMMENTS ON THE PACKAGE 2 TOR

10. The TOR for Package 2 are focused squarely on agribusiness **capacity development**. Specifically, the TOR state that the Package will:

enhance the capacity of: (i) the district NGO service providers in their tasks of project promotion, social mobilization, identification of interest groups, and conduct of environmental and social safeguards due diligence; and (ii) the regional and district AEC Agribusiness Planning advisors in delivery of agribusiness planning services to identified commercial groups and enterprises, including strengthening market linkages.

11. At one other point, there are also mentioned the *District DLS and DOA staff* as recipients of capacity development training and support. However, there are far more frequent and persistent references throughout the TOR to Package 2 training and support of AEC and the district NGOs. Moreover, these bodies also have their own extensive TORs within HIMALI specifying their key roles in agribusiness capacity development among the farmers and other enterprises, and the Package 2 TOR links closely with these TORS of the implementing partners. It is, then, AEC and the district NGOs which are identified as the main targets of Package 2 capacity development efforts, with AEC being the first or direct target, upon whom will largely devolve the task of agribusiness development capacity in the district NGOs, but with support and mentoring from the Package 2 Consultants.

12. The TOR envisages development by Package 2 of workshop training materials elucidating development of value chains presenting opportunities in the project's target Districts, and supporting the business planning, financial, social and environmental due diligence required for HIMALI Agribusiness Grant applications by farmers and other enterprises in the relevant value chains. Package 2 will develop and administer these materials to AEC staff in a training of trainers workshop. The AEC district and regional specialists will in turn use the materials in workshops training the district NGOs in their agribusiness development role, with support provided by the Package 2 CDDs.

13. This training of AEC and the district NGOS will be followed up by extended field mentoring and on-the-job training by the CDDs on understanding value chain opportunities and preparing business plans, of the AEC District Specialists, the staff of the district NGOs, and – acting together with and in support of these AEC and NGO staff – of some farmer(-groups) and other enterprises.

14. In preparation and support of this mission of capacity development, the Package 2 TOR envisages that the TL.P2 will:

Within the first 6 weeks, identify the capacity development needs of the AEC and District NGO staff in: (i) inclusive agribusiness and value chain development; (ii)

project promotion, social mobilization and environmental and social safeguards due diligence ... and prepare a capacity building program for the AEC and District NGO staff covering the start-up 18 months of the project, in close consultation with the AEC, PMU and District NGOs

15. This was an extremely ambitious schedule and one which it is not at all practicable – it has been overtaken by events – see **Issues**, below.

16. Apart from that, the scenario and mechanisms of capacity development by Package 2 laid out in the TOR appear coherent and logical; and should, provided the AEC and district NGO staff to be mobilized prove to be of reasonable competence and relevant experience, provide a solid base of agribusiness development capacity in the target Districts for generating an adequate volume of business (sub-) projects and well-prepared Agribusiness Grant applications by farmers and other enterprises over the project's six-year life.

17. However one further major comment on the TOR is called for. The work of the CDDs is envisaged as being very largely, and intensively, focused on parties (AEC, the district NGOs, and farmers and other enterprises) located in the target Districts, with some additional activities focused on assisting business linkages with enterprises outside the Districts. Moreover, all three CDDs have each to cover two to four Districts, and thus must travel frequently between them. Furthermore, although the TL.P2's base is the PMU in Kathmandu, his TOR require him to spend

At least 50% of his time in the 10 project districts.

18. All these features add up to a very large amount of travel, mostly by air, to and between districts, which must be adequately budgeted to enable effective TA implementation.

4 ISSUES

19. There are four main issues, and one important secondary one, facing Package 2 implementation at the time of writing.

4.1 Mobilization of District NGOs

20. Firstly, the **district NGOs are not yet mobilized**. In fact, the process of contracting them has barely started. ADB has very recently confirmed that their recruitment can be done using the CQS contracting procedure rather than the QCBS procedure. NGOs for several Districts – probably a maximum of five of them, with some covering multiple Districts – will thus now be recruited, instead of a single 'national' NGO with responsibility for all ten Districts. Although the CQS procedure is faster than the several-months-long QCBS procedure, it appears improbable that the NGOs will be effectively 'in place' in the 10 Districts before the end of May 2012, particularly since in some Districts they will have to establish new offices. Thus, neither work with the NGOs to build up their capacity, nor even assessment of their present capacities and capacity-building needs, will be possible until that time at the earliest.

4.2 AEC's Recruitment

21. Secondly, so far, **AEC's recruitment progress seems to have been very slow.** It is understood, although not confirmed, that they have selected their Team Leader and have proposed him or her to ADB for their approval under the ADB-AEC IA HIMALI contract. Meanwhile, it is not confirmed whether the Regional Planning Specialists have been similarly selected. The latest communication from AEC is that they hope to have the Team Leader and the Regional Specialists 'in place' by the end of March, but in the absence of any more definite news, this must be a matter of significant doubt. Moreover, the key to achieving AEC's assigned tasks is mobilization and effective operation of their 10 District Specialists who will actually be located in the Districts and working day-to-day with the District NGOs and the farmers and other enterprises. AEC's recent experience in another multi-District project wherein they hired District Specialists who were then forced to be largely idle for several months while waiting for essential District partners also to be mobilized, makes it rather unlikely that AEC will hire their HIMALI District Specialists much, if at all, in advance of the effective coming-into-place of the NGOs in the project's 10 Districts. Although the delay in AEC mobilization is less 'clear cut' than would appear to be the case with the NGOs, and might prove in the event to be much shorter, nevertheless the most likely current scenario is full mobilization of the AEC team not occurring before the middle of May. If this proves to be the case, neither work with AEC to build up the capacity of its team, nor even assessment of its present capacities and capacity-building needs, will be possible until that time at the earliest.

4.3 Air Travel

22. Thirdly, there is the issue of **an adequate air travel budget for Package 2 consultants.** Within the present overall Package 2 budget for the Package's entire 18-month implementation, there is provision for only 26 round-trip internal flights for the team of four consultants, the TL.P2 and the three CDDSs – that is, an allowance of just over *one flight per consultant every three months*. This is manifestly inadequate, given the envisaged service-duties in the 10 Districts, particularly since at most three Districts will normally be accessed by road, and that there are no direct flights between the four large and remote Mid-Western Districts – all air travel between them involves routings via Nepalganj. This issue has been raised by the TL.P2 during Package 2 budget review with ACI, and has been recognized by ACI management. When a more detailed program of envisaged service-duties has been developed, the air travel implications will be quantified and the issue put before the PMU operationally, in a proposal for a specific Package 2 budget adjustment. Associated with this will be an analysis (already substantially accomplished) of the most appropriate base-location of the Mid-Western CDDS from the standpoint of both economy *and* effectiveness of his services.

4.4 Targets for HIMALI Implementation

23. Fourthly and finally, there is the issue very rightly raised by the PD/PMU of **project agribusiness development targets and operations during the remainder of the FY to 15 July 2012.** Among other goals, there is a target of 70-75 Agribusiness Grants to farmers' and others' private enterprises to be approved and disbursed during this period. It may be questioned whether this numerical target is practicable under any circumstances, but that is not the main point. The issue is essentially one of how to get HIMALI implementation in and through the private sector (the project's key focus) substantively launched as soon as possible, without 'waiting' for the full mobilization and capacity-development of AEC and the District NGOs.

24. A constructive consensus appears to have been reached on this important matter between the PMU, Package 1, and Package 2. TOT training on agribusiness capacity development will be given by Package 2 as soon as possible – the presently-envisaged period and venue is 27-29 March, in Kathmandu – to PMU staff and, crucially, to senior DLO and DAO officers, including the District

Project Coordinators (DPCs), in the 10 Districts. Thereafter, and after introductory workshops to the district stakeholders have been completed in all 10 Districts, for an interim period of up to two months the DLOs and DAOs may take on the farmer and farmer-group mobilization roles within HIMALI in their Districts, and the CDDs will directly assist the farmers and other enterprises to improve their business connections (commercial inter-enterprise linkages) and to prepare their business plans and Agribusiness Grant applications. Assisted by the TL.P2 and also, increasingly, by the AEC senior staff – the AEC Team Leader and the Regional Planning Specialists – as these staff may come into post, the CDDs will solicit and assist business proposals to be made by larger processing or trading enterprises in relevant value chains, probably located in Kathmandu or other large towns or cities of Nepal. These enterprises would provide product demand, whether through formal contracts or otherwise, to the high mountain farmers, and in some cases technical inputs and assistance as well. (Possible examples already identified might involve a national vegetable seeds processor and marketer, and a multinational MAPS processor and marketer). The large enterprises might propose business projects to HIMALI for expanding such linkages with high mountain farmers in project Districts, and perhaps also for expanding their own processing or packaging facilities to handle the increased volumes and/or upgraded product quality. If they were proposing business projects of their own (as opposed to, say, providing supply and demand commercial support to farmers’ business projects), the large enterprises would prepare business plans and Grant applications to HIMALI, like the farmers and other smaller enterprises, with any assistance which might be necessary from the CDDs, the TL.P2, and (as available) the AEC senior HIMALI staff.

25. In this way, a start would be made, from mid- or late-April onwards, in building up practical agribusiness development capacity in the project’s Districts, and in generating a stream of both large and small private-sector business (sub-) projects, each(sub-)project with its own business plan and Agribusiness Grant application, *before* the AEC team and the district NGOs are fully recruited, mobilized, and trained.

4.5 PMU: Logistical Support to TA, and Project Operational Posture

26. In common with Package 1, the Package 2 Consultants are **working presently without adequate office equipment and furniture, access to transportation for work-related purposes, and landline and intercom telecommunications**. For the Package 2 Consultants to do their jobs efficiently and effectively, a networked printer/scanner, a photocopier, voltage regulators, and filing cabinets are all urgently needed. For attending meetings, banking, and other work-related activities of Packages within and around Kathmandu, a readily available vehicle, and/or financial provision by the PMU for Consultants’ work-related use of taxis, is an essential. For efficient communications within the HIMALI office and for outside calls to external stakeholders to facilitate essential networking and productive business linkages, an intercom system and a separate landline are also badly needed. Finally, during working hours there have frequently been blocks of time when no electricity is available in the HIMALI office. Steady access to electric power is essential for efficient TA implementation.

27. Having raised this issue of necessary logistical support, it will be appropriate on the other hand to **appreciate and commend the positive overall operational posture of the PD and the PMU** – their flexible, adaptive, and ‘let’s do it by any sensible means’ attitudes to unrolling as early as possible the substantive agribusiness development activities of the project in the field, i.e. in the 10 Districts. Evidence for these positive attitudes is provided by the ‘constructive consensus’ reported and outlined at 24) and 25) above.

5 WORK PLAN FOR THE NEXT QUARTER (UNTIL MID/LATE JUNE 2012)

28. It will be evident from the above that there is considerable operational delay, and also uncertainty, which affects the planning and scheduling of the main agribusiness development outputs and activities of the project as a whole and of Package 2. In these circumstances, whilst the longer-term unrolling of these activities should hopefully proceed (with some delay) in accordance with the original project design, it does not make good sense to make detailed plans and schedules for them at this early date. Instead, it is appropriate to focus on the immediate future, and, as far as the longer-term is concerned, adjust to ongoing circumstances as and when these unfold. The Work Plan proposed in this Report, consistent with the Package 2 TOR requirement to provide the PD with Quarterly Work Plans, accordingly covers only the immediately upcoming Quarter, from the time of writing until 22 June 2012.

29. By that date, the project's main implementing partners and Package 2 targets – the whole AEC team and the district NGOs – should have been fully mobilized and a realistic assessment of their capacities and capacity-building needs should become possible. Also by that date, the Package 2 Consultants' work during the Quarter to assist directly the generation and preparation of private-sector business (sub-)projects should have provided them with good practical insights into locally value chains, the nature of the sub-projects likely to be proposed in future, and the capacity development needs of farmers and other private enterprises in the target Districts.

30. **The main Package 2 activities**, and their scheduling, proposed in this Quarterly Work Plan, are as follows (all dates given are in 2012):

1. Preparation of first-draft workshop training (TOT) materials for building agribusiness development capacity in AEC and the district NGOs: currently, until 25 March
2. Participation in the HIMALI National Inception Workshop in Kathmandu: 26 March
3. Administering the TOT training materials in workshop in Kathmandu for PMU staff and senior DLO and DAO officers, including the District Project Coordinators, from the 10 Districts: 27-29 March
4. Evaluation of the TOT workshop including the participants' reactions to it: 30 March
5. Meeting EIG and obtaining access to their very extensive agribusiness development training materials used in Nepal over the past several years. Likewise, contacts and checks also with CADP/CAA, PACT, and NEAT along similar lines. All these sources will be reviewed to access relevant training materials already available in Nepal, which can be studied and used as needed; 1 – 20 April
6. Participation in the program of HIMALI introductory workshops to stakeholders in the remaining eight target Districts: 1 – 20 April
7. Review, if possible with AEC senior HIMALI staff, of the training materials developed (including those by EIG, CADP/CAA, PACT, and NEAT) and of the capacity-building needs in the Districts in the light of the introductory District workshops, followed by further development of training materials and programs (syllabus, methodology, organization) of training aimed at AEC and the district NGOs: 22 April – 11 May
8. Informed by the participation noted above in the HIMALI introductory workshops in the several Districts, review of air and other travel requirements of all Package 2 Consultants,

and of the most appropriate bases from the standpoints of cost-economy and (even more important) the Consultants' operational effectiveness, and development of a draft travel plan and revised travel budget covering the entire implementation period to 30 September 2013: 22 April – 11 May

9. Ongoing extension of contacts and visits to relevant projects, institutions, and large private sector companies in Kathmandu and elsewhere (e.g. Nepalganj, Surkhet) aimed at assisting stronger business linkages for farmers and other enterprises in the relevant value chains and at rapidly generating business (sub-) projects, business plans, and Agribusiness Grant applications from some of the large companies: throughout the Quarter
10. Work by the CDDs in their respective target Districts, in cooperation with the DLOs, DAOs and any other locally-effective stakeholders and with AEC staff as they may be progressively mobilized, to generate from farmers and other enterprises located in the target Districts business (sub-) projects, business plans, and Agribusiness Grant applications: 22 April – 1 June (and quite likely beyond that date)
11. Extensive contacts, primarily in the Districts, made with the staffs of AEC and the district NGOs, to assess their capacities and agribusiness capacity development needs, followed by a review of findings and formulation of a capacity development program for them, including workshop training with its syllabus, methodology and organization, to be implemented in the following Quarter (June to September 2012): 3 – 22 June. And
12. Review of the draft travel plan and revised travel budget covering the entire Package 2 implementation period developed earlier in the Quarter as noted above, and preparation of a finalized version for the approval of the PD and for the PMU to propose to ADB as a project budget variation: 3 – 8 June.