SUBMITTED TO
SNV EAST PORTFOLIO Nepal
Bakhundole, Lalitpur
Nepal

Strategy on Access to (Micro) Finance for the Tea Sector in Ilam and Panchthar Districts of Mechi Zone

(Final Report)
Version: 31.12.08

Submitted by
Centre for Empowerment and Development
Saibu-8, Lalitpur, Nepal
Phone: 977 1 5590842
e-mail: cednepal@yahoo.com

December, 2008

EXECUTIVE SUMMARY

Access to financial services is one of the services required for enterprise development. Concerns have been raised as to lack of access to financial service at different layers of the tea value chain as one of the barriers for its growth and development. This report attempts to develop strategy for access to finance in tea sector in Ilam and Panchthar districts that will accelerate the process of the tea value chain development.

Tea is one of the cash crops in Ilam and Panchthar districts with potential to provide increased income and generate employment to various actors involved in tea value chain. Key actors in different layers of tea value chain consists of tea nursery owner, agro-traders, potential tea growers, owners of existing tea orchards (maintenance and plucking/supply of green leaves), tea producer's cooperatives, pluckers, hand processers, mini-processers, large processers, brokers/packers, wholesalers, transporters and exporters. Financial needs differ across these actors in the tea value chain.

Different types of Financial Service Providers (FSPs) operate in in Ilam and Panchthar districts. These FSPs are Commercial Banks (CBs), Development Banks (DB), Microfinance Development Bank (MDB), Financial Intermediary NGOs (FI-NGOs), cooperatives [Savings and Credit Cooperatives (SCCs), Small Farmers Cooperatives (SFCLs), Multipurpose Cooperatives (MPCs), Tea Producers' Cooperatives (TPCs)] and Savings and Credit Groups (SCGs). Total demand for financial services (loan) of all the key actors in the tea value chain is estimated at Rs. 1,543.53 million (Rs. 1,251.9 million in Ilam and Rs. 291.6 million in Panchthar) and that of the total current supply is estimated at Rs. 291.6 million (Rs. 233.29 million in Ilam and Rs. 58.30 million in Panchthar). This implies that there is a huge un-met demand for financial services (loan) among key actors in the tea value chain. This is primarily owing to the facts that operation of existing FSPs is concentrated in accessible areas i.e. along road corridors and virtually no or limited access in inaccessible (remote) areas. In general, commercial FSPs (CBs, DBs, MDBs, FI-NGOs) are working along road corridor of these districts while there are instances of community based FSPs (cooperatives and SCGs) operating in relatively inaccessible areas.

Financing methodologies adopted by these FSPs are combination of individual lending (provide financial services to individuals) grameen type loan (provide financial services to a group of 5 women members) and solidarity group (provide financial services to a group of flexible size ranging between 5-25 members) lending. Interest rate charged by FSPs ranges between 12% per annum and 24% per annum and most of these FSPs calculates the interest rates adopting the declining balance method. At present, except two CBs namely Agricultural Development Bank Limited (ADBL) and Rastriya Banijya Bank (RBB) and one DB namely Excel Development Bank, none of other FSPs are directly involved on providing financial services in the different layers of the tea value chain due to seasonality involved on income flow, relatively high risk on investment and poor portfolio on lending done in the past. However, there are cases where other FSPs have also provided access to financial services to other actors in tea value chain as their market promotion strategies. What is the reason for this?

On the basis of study findings this report concluded that various actors in tea value chain require financial services to meet both working capital and fixed investment requirements in the form of microfinance and micro-enterprise finance (case of pluckers and SHCC producers) in tea sector and small, medium and large scale finance (other actors) and financial services are required for short short-term (< 1 years), medium term (1-5 years) and long term (> 5 years). There are large number of FSPs in both districts but their potentials have not been sufficiently used for strengthening different layers in tea value chain due lack of understanding on their potential roles among those involved on providing business development (BDS) services in tea sector. In fact role of

FSPs as one of the key actors in tea value chain has not been sufficiently acknowledged by BDS providers working in those districts. There is a need to include the FSPs for the growth and development of tea value chain involving them in tea alliance and other committees in national, regional and local level.

Ensuring access to finance to various layers of tea value chain requires existing FSPs to design financial products based on cash flow of the enterprises ensuring transparency on pricing of their products and services. ADBL and RBB are losing money lent since early 1980s due to lack of willingness of these actors to repay the loans. At present, they are rather reluctant to extend further medium and long-term finance on tea value chain. Their experiences (poor repayment, protest against waiver of accumulated interest and principle amount) on financing for expanding tea plantation and plantation management are not encouraging and hence reluctant for further financing on tea value chain.

There are 173 (124 in Ilam and 49 in Panchthar) cooperatives in these districts that have potentials to meet financial need of their shareholders, mainly pluckers and SHCC producers, if properly capacitated and adequately oriented. However, locals have a tendency to promote many small cooperatives rather than working with existing and few larger cooperatives; and are operating below potential. Most cooperatives are too small to undertake any business of sizable volume including provision of financial services. There is a need to amalgamate more number of small cooperatives into few large cooperatives to ensure scale economics. District Farmers Cooperative Federation in Ilam (Cooperative Union registered under Cooperative Act 2048) and Farmer's Federation in Panchthar district (NGO registered under Society Registration Act 2034) is this a real and formal farmer’s federation or registered as an NGO? can play a lead role in the amalgamation process if they are properly oriented and guided in this direction.

In view of context and realities that prevails in these districts, it has been recommended to adopt four pronged strategy in order to ensure access to finance to various layers in tea value chain viz. (i) strengthening community based FSPs such as savings and credit cooperatives (SCCs), Small Farmers Cooperatives (SFCLs), Multipurpose Cooperatives (MPCs), and Tea Producers' Cooperatives (TPCs); (ii) supporting to promote community based banking by strengthening of savings and credit groups (SCG) and their linkages with FSPs to access wholesale loans; (iii) collaborating with microfinance development banks and financial intermediary NGOs to increase access to finance for short-term (i.e. microfinance and microenterprise finance) loan in the tea value chain, (iv) forging partnership with CBs and DBs for short, medium and long-term loan for promoting small, medium and large enterprise finance in the tea value chain and (v) strengthening the key actors in the Tea Value Chain for access to finance.

Implementation of above strategies is not straightforward; requiring series of initiatives ranging from lobbing/networking to capacity building. On the basis of situations and realities that prevails on state of operations of the FSPs in Ilam and Panchthar districts; this study has identified few recommended actions for improved access to finance on promoting the tea value chain. These actions are grouped under four SNV's service delivery channels as outlined in following table.

SNV's Delivery channels	Recommended actions
Advisory services	▪ Mapping of FSPs in these districts ▪ Operational plan to strengthen community based FSPs (savings and credit cooperatives, small farmers cooperatives limited, multipurpose cooperatives, and tea producers' cooperatives); ▪ Design and implement community based banking scheme i.e. support to FSPs on design of wholesale loan products for savings and credit groups. ▪ Support key actors in the tea value chain on preparing business

SNV's Delivery channels	Recommended actions
	plan of their enterprise and external financial need assessment.
Local capacity building	▪ Institutional audit of existing cooperatives. ▪ Amalgamation of more number of small cooperatives into few large cooperatives. ▪ Capacity building of the cooperatives on aspects related to promotion and management; governance, new product development, loan operation, accounting/book keeping, financial management, internal control, operational risk management, management information system, product diversification and service delivery mechanism. ▪ Linkages of cooperatives with apex institutions for wholesale loans, ▪ Building the technical and managerial capacity of tea producers cooperatives mainly on delivery of financial services, ▪ Strengthening of SCGs, ▪ Developing feasible model for linkages of SCGs with FSPs for wholesale loans; ▪ Social mobilisation of some of the actors in the tea value chain such as tea nursery, agro-traders, tea planters, tea orchard, puckers / suppliers of green leaves, tea producer's and hand processing units for social capital formation and preparing them on using financial services from existing FSPs. ▪ Orientation among key actors in the tea value chain on strengths and limitations of various FSPs active in Ilam and Panchthar districts. ▪ Awareness and education to all the actors in the tea value chain on financial discipline, pricing of products and services, on-time payment, lending terms and conditions of various FSPs, cost of being delinquent and default, optimal finance and proper use of borrowed fund, repayment of principal and interest on loan based on household and enterprise cash flow. etc.
Advocacy	▪ Awareness on different FSPs working in the district, ▪ Consultative meeting at district, region and central level with key stakeholders involving FSPs for access to finance in the tea value chain. ▪ Discussion on strategies about SNV's possible interventions with other actors in the tea value chain including tea alliance members in enhancing access to financial services from existing structures and FSPs.
Knowledge brokering and networking	▪ Lobbying with Bankers Association of Nepal (BAN), Nepal Micro-bankers Association (NMBA) and Microfinance Association of Nepal (MIFAN) for access to financial services in tea sector. ▪ Involving representatives from BAN, NMBA and MIFAN in tea alliance at central level and representatives of FSPs in alliance at regional and district level.

TABLE OF CONTENT

EXECUTIVE SUMMARY i
TABLE OF CONTENT iv
LIST OF TABLES v
ACRONYMS AND ABBREVIATIONS vi
STUDY TEAM vii
1. INTRODUCTION 1
1.1 Background 1
1.2 Objectives of the Assignment 2
1.3 Scope of the Assignment 2
1.4 Approach of the Study 2
1.5 Methodology of the Study 3
1.5.1. Data Sources 3
1.5.2. Data Collection Methods 3
1.5.3. Data Collection Tools 3
1.5.4. Study Process 4
1.5.5. Information Processing and Analysis 4
1.5.6. Validation Workshop 4
1.6 REPORT ORGANISATION 4
2. LANDSCAPE OF FINANCIAL SECTOR IN ILAM AND PANCHTHAR DISTRICTS 5
2.1 Informal Financial Sector 5
2.2 Formal Financial Sector 5
2.3 Microfinance Sector 7
2.4 Microfinance Programmes 10
2.5 Local NGOs in Microfinance Sector 11
2.6 Rural Enterprise Assistance Programme and Financial Services 11
3. OVERVIEW OF TEA SECTOR IN ILAM AND PANCHTHAR DISTRICTS 12
3.1 Introduction 12
3.2 Tea Production 12
3.3 Tea Processing 15
3.4 Tea Export 15
3.5 Tea Supply Chain 17
3.6 Tea Value Chain 20
3.7 Socio Economic Impact 21
3.8 Code of Conduct 22
3.9 Concluding Remarks 24
4. FINANCIAL SERVICES VIS-A-VIS FINANCIAL NEED IN TEA VALUE CHAIN 25
4.1 Capital Flow in the Tea Value Chain 25
4.2 Financial Need Analysis in Every Layer of Tea Value Chain 25
4.2.1. Financial Need in Tea Value Chain 25
4.2.2. Market for Financial Services 26
4.2.3. Environment Analysis 28
4.3 Gaps between Financial Service Providers and Users 29
4.4 Financial Sector and Tea Sector vis-a-vis Access to Financial Services 30
4.5 Assessment of Possible Interventions 31
5. STRATEGY FOR INCREASING ACCESS TO FINANCIAL SERVICES FOR VARIOUS LAYERS IN THE VALUE CHAIN 35
5.1 Vision, Mission, Goal and Purpose 35
5.2 Current status of Financial Service Providers 35
5.3 Strategies on Access to (Micro) Finance for the Tea Sector 37
5.4 Activities for Implementing Strategies 39
6. SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS 44
6.1 MAJOR FINDINGS 44
6.2 RECOMMENDATIONS 46

7. REFERENCES 49
ANNEXES 51
ANNEX 1: FIELD VISIT SCHEDULE OF THE ASSIGNMENT 51
ANNEX 2: LIST OF PERSONS' MET 53
ANNEX 3: SURVEY INSTRUMENTS USED 56
ANNEX 4: TEA VALUE CHAIN IN ILAM AND PANCHTHAR DISTRICTS 57

LIST OF TABLES

Table 1: Distribution of Financial Service Providers in Ilam and Panchthar Districts 5
Table 2: Financing Status of ADBL in Tea Sector as of September 2008 6
Table 3: Distribution of Microfinance Service Providers in Ilam and Panchthar Districts 7
Table 4: Working VDCs of the Commercial Microfinance Service Providers in Ilam and Panchthar districts as of September 2008 7
Table 5: Outreach of Commercial Microfinance Service Providers as of September 2008 8
Table 6: Outreach of Three SFCLs as of September 2008 9
Table 7: Users' Group/Savings and Credit Groups in Ilam and Panchthar Districts as of September 2008 10
Table 8: Total Tea Production and Tea Plantation Area Tea Plantation area in hectares Tea production in Kg's 13
Table 9: Type of tea produced 2005/06 13
Table 10: Geographical Distribution of Production 14
Table 11: Growth in cultivation and trade of Nepalese Tea 15
Table 12: Export and Import of Tea from Nepal to India 16
Table 13: Export of Nepal Black and Green to other countries except to India 16
Table 14: Overview of Tea Value Chain in Ilam and Panchthar Districts 20
Table 15: Business Service and Enabling Environment Services in Tea Value Chain in Ilam and Panchthar Districts 21
Table 16: Four Pillars of CoC in Orthodox Tea in Nepal 23
Table 17: Capital Flow in Tea Value Chain 25
Table 18: Financial Need in Tea Value Chain 25
Table 19: Demand for Financial Services in Tea Value Chain 26
Table 20: Financial Services (Loan) Provided by Financial Service Providers in Ilam and Panchthar District 28
Table 21: Gaps between Demand for and Supply of Financial Services (Loan) on Tea Sector in Ilam and Panchthar District 29
Table 22: Key Characteristics of Loan Products for Different Actors in Tea Value Chains in Ilam and Panchthar Districts 30
Table 23: Categorizing Loan Products for Different Actors in Tea Value Chains in Ilam and Panchthar Districts 32
Table 24: Involvement and Possible Interventions of FSPs to provide Access to Finance to Key Actors in Tea Value Chain in Ilam and Panchthar Districts 34
Table 25: Evaluation of Current Status of Financial Services Providers in Ilam and Panchthar Districts 35

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ADBL	Agriculture Development Bank Ltd.
AEC	Agro-enterprise Center
CAA	Commercial Agricultural Alliance
CED/N	Centre for Empowerment and Development, Nepal
CoC	Code of Conduct
CoP	Cost of Production
CTC	Cut, Tear and Curl
DDC	District Development Committee
DSL	Deprived Sector Lending
FI-NGOs	Financial Intermediary NGOs
FSPs	Financial Service Providers
HIMCOOP	Himalayan Tea Producers Cooperative Ltd.
HOTPA	Himalayan Orthodox Tea Producers' Association
LCB	Local Capacity Building
MDB	Microfinance Development Bank
MFI	Microfinance Institutions
MOA	Ministry of Agriculture
MPC	Multi-purpose Cooperatives
MT	Metric Ton
NBL	Nepal Bank Ltd.
NTVDB	National Tea and Coffee Development Board
NGOs	Non Government Organization
NRB	Nepal Rastra Bank
NTDC	National Tea Development Corporation
PCRW	Production Credit for Rural Women
SBB	Sawalamban Bikas Bank
SCCs	Savings and Credit Cooperatives
SCG	Savings and Credit Groups
SFCLs	Small Farmers' Cooperatives Ltd
RBB	Rastriya Banijya Bank
RMDC	Rural Microfinance Development Centre
RSRF	Rural Self Reliance Fund
SHCC	Small Holders Cash Crops
SFDP	Small Farmers Development Project
SKBB	Sana Kisan Bikas Bank
SNV	Netherlands Development Agency
SWOT	Strengths, Weaknesses, Opportunities and Threats
TESEC	Tea Sector Service Centre
TPC	Tea Producer's Cooperatives
UGs	Users' Groups
VDC	Village Development Committee

STUDY TEAM

Team Leader/Access to Finance Expert	Mr. Nara Hari Dhakal
Research Associate (Microfinance)	Mr. Tirtha Raj Ghimire
Research Associate (Socio-economics)	Mr. Bishnu Prasad Prasai
Data Entry and Secretarial Support	Miss Sumitra Dhakal

1. INTRODUCTION

1.1 Background

Tea is one of the main cash crops in Ilam and Panchthar districts contributing to rural and national economics and supporting in reducing incidence of poverty through income and employment generation. Access to financial services is one of fundamental elements for enterprise development in rural areas. Due to lack of access to financial services most of rural small holder farmers are compelled to rely on borrowing from local traders and money lenders at exorbitant interest cost for financing their enterprises. There are several cooperatives that have emerged in response to this adverse situation but still they lack systematic and efficient systems for providing financial services that best matches the needs of their members.

SNV has been working in Ilam and Panchthar districts since last 15 years and currently interested in developing a concrete strategy for access to (micro) finance for the small holder tea producers with a primary result of ensuring access to financial services to at least 4500 small holder tea farmers, laborers and pluckers for uplifting their income and creating increased employment in these districts.

Access to finance is one of requirements for Small Holders' Cash Crop (SHCC) development. At present, SNV lacks an adequate understanding of the situation related to institutional setting and explicit conditions for access to finance in SNVs working areas. There is also no clear and common vision on how best financial services can be integrated in SHCC sector to address the needs of the SHCC producer and/or rural families/entrepreneurs. Additional challenges are lack of baseline and justifiable information and lack of real expertise to assess all dimensions' involved and to be considered while working in finance sector. There is also lack of clear understanding on types of result indicators that could be formulated to achieve certain outcomes as well as develop indicators for future monitoring.

SNV East Portfolio has conducted several activities for creating more insight in financial sector in last few months. Several meetings were held with sector stakeholders and with LCB/clients like TEASEC and tea farmer federations[1]. (I guess out of the two farmers federation, so called farmer federation in Panchthar is registered as an NGO under social welfare act). From the broad stakeholder discussions it has become clear that in tea value chains substantial capacity building processes are needed in respect to stakeholders' performance on organisational management, business planning, entrepreneurial development and facilitating access to finance. Also remained unclear and uncertain is type of roles and achievements of clients, partners and potential LCB's in contributing to sector capacity in terms of access to finance.

In general, SNV lacks comprehensive stock of knowledge and expertise on best practices related to access to finance. In the past it has done some work in partnership with Lotus opportunities[2] on increasing access to financial services among farmers and entrepreneurs active on different layer in the value chain of potential cash crops of the areas. However, this initiative proved to be inadequate and not workable. In view of this, SNV has felt the need to develop strategy for access to (micro) finance for tea sector and procured the service of Centre for Empowerment and Development (CED) Nepal[3] with

[1]There are two farmers' federations, one each in Ilam and Panchthar districts that are registered under Society Registration Act 1978 as a NGO. Further, there is one farmer's cooperative federation in Ilam which is the union of Tea Producer's Cooperatives (TPCs) in the district registered as second tier cooperative under Cooperative Act 1991.

[2]Lotus Opportunities has developed the capacity of a number of cooperatives involved on tea sector in 2006 and 2007 in Ilam, Panchthar, Dhankuta and Terhathum and assisted them on strengthening and business plan preparation

[3]CED Nepal is a new national NGO based in Lalitpur, Nepal and related detail about CED Nepal is provided in Annex 1.

the responsibilities to develop strategy for access to finance in tea sector in Ilam and Panchthar districts. This is the report prepared by the CED Nepal. This report was prepared through desk studies, collection of studies, research and documentation of SNV's learning's through field studies and review of available financing modalities.

1.2 Objectives of the Assignment

This assignment is aimed at developing a strategy for access to finance in tea sector in Ilam and Panchthar districts that will bring most effective intervention in the tea value chain development. The specific objectives of this assignment are to:

- provide an overview of capital flow in the tea value chain;
- analyse different needs of different actors in every layer of the tea value chain;
- identify gaps between finance service providers (potential investors) and users;
- assess the possible interventions as per implications to the value chain, effectiveness (scale merit, time-frame), commercial viability and feasibility (including political climate over finance issue),

1.3 Scope of the Assignment

Scope of this assignment lies at producing strategy for ensuring access to (micro) If you say micro then I think you are concentrating your analysis more on the bottom part of the Orthodox VC. finance[4] to different actors in the tea value chain that will be effective and in place for the tea sector in Ilam and Panchthar districts for at least 2 years (2009 / 2010) as per SNV's tea sector's strategic choices. Outputs are worked-out so as to make it tangible, simple to understand on access to finance developed for tea sector, including proposal for intervention given SNV's niche, choices of client, partners and LCB selection. The strategy plan has been in line with current tea sector strategy and SNV overall SHCC strategic choices. Finally recommendations are clearly linked to solutions and interventions related to four delivery channels of SNV (scope for advice directly to clients and/or through LCB's, scope for knowledge brokering, advocacy, LCB fund) and to different levels to be targeted outlining SNV's strategy on national, regional and district level.

1.4 Approach of the Study

This study is the outcome of the blending of desk study and field study to have through understanding and analysis of financial sector and tea sector. Financial sector analysis encompasses activities such as (i) review of relevant rules/regulation governing operation and management of different financial service providers, (ii) mapping of existing available financial service providers (FSPs) in these districts including commercial banks, development banks, finance companies and microfinance institutions; (iii) review of available documents produced by different FSPs. The focus of this assessment was to identify on what makes actors reluctant to provide financial service in value chain (major causes of default); which banks (commercial and development) provide loan for longer period in agricultural sector and which FSPs already involve tea farmers/pluckers as their credit users, etc. The tea sector analysis involved categorization of actors in every layer of value chains such as pluckers, factory labour, existing tea growers, potential tea growers and farmer cooperatives/groups. Appropriate strategies are suggested in cognizance to findings of financial sector analysis and tea sector analysis.

The above approach has been materialized through situation analysis and setting vision for access to finance within SNV. SWOT analysis for providing access to financial services to clients at various layer of the tea value chain in these districts was done and various

[4]This relates to whole array of finance in the tea value chain encompassing (ii) micro, small scale, medium scale and large scale finance; (ii) working capital and fixed investment and (iii) short term, medium term and long-term finance.

interventions that are consistent to the SNV's vision on access to financial services was identified and presented as strategies for access to finance on tea sector.

1.5 Methodology of the Study

Key aspects of methodology adopted in this study are outlined hereunder.

1.5.1. Data Sources

The data required for conducting this study were obtained both from secondary and primary sources. The secondary sources include review of relevant documents, progress reports and other published and unpublished materials related to tea sector development in these districts. The primary information was gathered by conducting field studies and surveys through an interview with key informants and stakeholders.

1.5.2. Data Collection Methods

Review of relevant documents:
The available documents related to tea sector and other relevant documents on Nepalese financial sector were reviewed and findings of such review supported further investigation process that helped to accomplish the objectives of this study.

Field visits:
Field visits were organised in both districts to collect first hand information on various layers of the tea value chain and performance of FSPs on provision of financial services through an observation on overall environment in financial markets operation and verify information gathered from concerned stakeholders such as tea growers, small processing units, traders, service providers etc. Itinerary showing field visit schedule is provided in Annex 1. Field studies consist of one to one consultations, individual interviews and key informant interview schedule and field observations. List of persons met during field studies are provided in Annex 2.

One to one consultations: The information required for this study were gathered through one to one consultations with tea alliance, HIMCOOP, HOTPA, TEASEC, IED, Winrock, GTZ, SNV, NTCDB, FNCCI/AEC, JICA, BSP, selected farmers' groups and their federations at district level.

Individual interviews: Individual interview were conducted with pluckers, factory labour, farmers, tea cooperatives/groups to gather information on their opinion and concern on access to financial services for different layers of the value chain in tea sector to improve their livelihood.

Key informant interviews: Interview schedule were organised with selected officials of FSPs, NGO personnel, SNV staff and others who are directly or indirectly associated on further growth of the tea sector.

Case studies:
Relevant and representative case studies were prepared to demonstrate best practices (if any) on access to financial services in these districts. Several cases were prepared to facilitate and reinforce the proposed strategies on ensuring access to (micro) finance on tea sector.

1.5.3. Data Collection Tools

Information were collected using a mix of data collection tools encompassing both quantitative and qualitative assessment so as to enable a comparison of information collected and find out qualitative justification of quantitative findings. In order to enable

proper collection of information required for this study, two sets of checklists (one for FSPs and other for potential clients) were prepared and used to gather relevant information. The data collection tools used in this study is provided in Annex 3.

1.5.4. Study Process

This study was conducted by an Access to Finance Specialist with the assistance of one research assistant, very well acquainted on various aspects related to access to financial services to people of different strata in the society and survey process. The findings of the study were validated with key stakeholders of the sector in these districts to build ownership on study findings.

1.5.5. Information Processing and Analysis

The information collected from different sources were compiled, consolidated and analyzed. Analysis was done under both quantitative and qualitative assessment framework. The appropriateness and suitability of existing FSPs were evaluated against desired outputs/outcomes and their potentials to meet expected need on access to finance of the key actors in the tea value chain.

1.5.6. Validation Workshop

Draft report of this assignment was presented to the key SNV staff to validate study findings and obtain their feedback. The report was revised accordingly incorporating the observations, comments and feedback of key SNV staff.

1.6 REPORT ORGANISATION

This report is organized into six sections. After this introductory section, sector two provides a brief description of landscape of financial sector in Ilam and Panchthar districts while section three provides an overview of tea sector in these districts. Various aspects related to financial services vis-a-vis the tea value chain are discussed in section four while strategy for increasing access to financial services for different layers in the tea value chain are provided in section five. The report concludes with summary of major findings and recommendations in section six.

2. LANDSCAPE OF FINANCIAL SECTOR IN ILAM AND PANCHTHAR DISTRICTS

The landscape of financial sector in Ilam and Panchthar districts comprises of informal, semi-formal and formal[5] financial sector. All these three sectors has definite role to ensure access to finance to SHCC producers including the key actors involved in the tea value chain. The 'snap-shot' of landscape of financial sector follows hereunder.

2.1 Informal Financial Sector

Informal financial sector in these districts comprises of individual lenders such as landlords, merchants, farmer-lenders, goldsmiths, pawnbrokers, friends, and relatives. In general informal lenders provide credit without procedural complexities and have flexibility regarding repayments and collaterals. Such a flexibility does not exist in the formal sector. Moneylenders are often landholders and exist in almost all the villages. They lend either with collateral (gold or silver) or without collateral albeit linked with labor and/or land transaction as security. In general informal money lenders charge exorbitant interest rates ranging between 36% and over 100% per annum and there is also built-in labor services or other small gifts as part of the loan request. Owing to high effective interest rate, loans from moneylenders are mainly used for emergency purposes such as medical crises or socio-cultural obligations like weddings and funerals, and not for productive activities such as promotion of cash crops including tea farming and support to strengthen the tea value chain.

2.2 Formal Financial Sector

The formal financial sector in these districts includes the institutions such as Commercial Banks (CBs), Development Banks (DBs), Microfinance Development Bank (MDBs), Savings and Credit Cooperatives (SCCs), Small Farmers Cooperatives Limited (SFCLs), Multipurpose Cooperatives (MPCs) and Financial Intermediary NGOs (FI-NGOs) licensed by Nepal Rastra Bank (NRB). CBs, DBs and MDBs are regulated and supervised by the NRB under Bank and Financial Institutions Act 2006; and that of FI-NGOs are regulated and supervised by NRB under Act for NGOs involved in Financial Intermediation 1998, and SCCs and SFCLs are regulated and supervised by Cooperative Department under Cooperative Act 1991 and Cooperative Rules 1992. NRB also mandates CBs and DBs lend directly at least 3% and 1.5% of their total deposits respectively on priority sectors under the Deprived Sector Lending (DSL) scheme. As of October 15, 2008, there are six CBs and one DBs working in these districts (Table 1).

Table 1: Distribution of Financial Service Providers in Ilam and Panchthar Districts

S.N.	Type of financial Service Providers	Unit	Number of Units		
			Ilam	Panchthar	Total
1	Commercial Banks				
	Nepal Bank Ltd.	No of Branch	1	1	2
	Rastriya Banijya Bank Ltd.	No of Branch	1	-	1
	Agricultural Development Bank Ltd.	No of Branch	2	1	3
	Bank of Asia Nepal Ltd.	No of Branch	1	-	1
	Sunrise Bank Ltd.	No of Branch	1	-	1
	Machhapuchhre Bank Ltd.	No of Branch	1	-	1
2	Development Bank				
	Excel Development Bank Ltd.	No of Branch	1	-	1

Source: Field Survey, October 2008

The presence of FSPs is more visible in Ilam district compared to Panchthar district. Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB) are involved on commercial lending in these districts since early seventies while they are involved in microfinance

[5]Informal sector relates to activities undertaken by unorganized entities, formal sector encompasses activities through registered entity and more organized and semi-formal sector includes unorganized activities undertaken by the registered entity.

sector in late seventies under priority sector lending programme. These banks were also the implementers of large government rural finance programmes namely Production Credit for Rural Women (PCRW), Priority Sector Lending Scheme and Deprived Sector Lending Scheme (DSL) in both districts. The outreach of rural finance services through under IBP/DSL in both districts decreased gradually owing to poor portfolio quality, deteriorating security situation and management problems leading to commencement of series of reform initiatives. While NRB has very limited involvement on financing on the tea value chain, RBB has extended about Rs. 9.3 million loans to support the establishment of tea processing plants in Sri Antu.

Agricultural Development Bank Limited (ADBL) is primary lending institution in agriculture sector and in the past it extended financial service to promote the cash crops including tea and cardamom. ADBL is also the implementer of small farmer development programmes (SFDP) in both districts.

Other commercial banks like Bank of Asia Ltd., Sunrise Bank and Machhapuchhre Bank Ltd. had opened their branches in Ilam Bazar in 2008. These banks are mainly confined on deposit collection and commercial lending and they are yet to be involved in promoting cash crops like tea. In general, their lending criteria do not support access to finance to cash crops growers in remote areas.

Thus, ADBL and RBB are the two commercial banks supporting to ensure access to finance in Tea sector. History of ADBL to support tea promotion dates back to 1973. RBB has limited involvement on lending in tea sector. Despite significant effort to finance on tea sector performance of ADBL to ensure access to finance on the tea value chain is not encouraging (Table 2).

Table 2: Financing Status of ADBL in Tea Sector as of September 2008

S.N.	Name of Branches	Unit	Clients (No)	Outstanding loan balance	Overdue amount	Overdue rate (%)
1	Fikkle	Rs. '000	594	42,154	6,626	15.7
2	Ilam	Rs. '000	628	86,000	18,500	21.5
3	Phidim	Rs. '000	180	33,221	23,842	71.8
	Total	Rs. '000	1402	161,375	48,968	30.3

Source: Field Survey, October 2008

As of September 2008, a total of 1402 clients are using financial services from ADBL with an outstanding loan balance of Rs. 161 million of which 30.3% is overdue with over 60% portfolio at risk. Owing to poor loan portfolio, ADBL has stopped further lending on tea plantation since 2003 and it is quite selective to continue financing on tea processing and marketing.

Excel Development Bank Ltd. is one of the regional Development Bank with head office in Birtamod in Jhapa district has opened branch office in Ilam bazaar in early 2008. Besides involving on deposit mobilisation, it has also involved on extending financial services to farmers involved on establishing and operating "**small** tea **processing units**". Two entrepreneurs in Sakhajung VDCs have received financial support with collateral from this Bank for establishing small processing units and amount of lending was Rs. 1,300,000. There is almost 100% on-time loan repayment.

Most of the activities in formal financial sector are commercial in nature, resulting in large loan sizes (average Rs. 200,000) concentrated in industrial productive activities. The formal financial sector provides loans to men, as women are not normally involved in larger businesses[6].

[6]ADB and NRB (1994) estimates proportion of rural households reporting borrowing from formal sources during 1991/92 at 8%. Across regions, proportions are 4%, 8% and 9% for the Mountains, the Hills and the Terai regions respectively."

2.3 Microfinance Sector

History of microfinance sector in Ilam and Panchthar districts dates back to early 1980's when (i) ADBN started the implementation of SFDP in Jitpur and Sri Antu VDC of Ilam District directly and (ii) Women Development Section started PCRW project in Fikkle VDC of Ilam District and Phidim VDC of Panchthar district in partnership with ADBL, NBL and RBB. These programmes generally target to poor and excluded groups, focus to address poverty problems and comprise of Microfinance Institutions (MFIs) and microfinance programmes. MFIs in Ilam and Panchthar districts comprise of MDBs, FI-NGOs, SCCs, Multipurpose Cooperatives (MPCs), Tea Producers Cooperatives (TPCs) and SFCLs. Based on their ownership and nature of operations, these MFIs can be broadly grouped into two categories such as commercial oriented and community based. The former includes MDBs and FI-NGOs while SCCs, SFCLs, MPCs and TPCs falls on later category.

Table 3: Distribution of Microfinance Service Providers in Ilam and Panchthar Districts

S.N.	Type of financial Service Providers	Unit	Number of Units		
			Ilam	Panchthar	Total
1	Microfinance Development Bank				
	Sawalamban Bikas Bank	No of Branch	2	1	3
2	Financial Intermediary NGOs				
	FORWAD	No of Branch	3	1	4
3	Cooperatives				
	Savings and Credit Cooperatives	Number	40	10	50
	Small Farmers' Cooperative Ltd.	Number	3	-	3
	Multipurpose Cooperatives	Number	54	36	90
	Tea Producer's Cooperatives	Number	27	3	30

Source: Field Survey, October 2008

Sawalamban Bikas Bank (SBB) and FORWARD, respectively MDB and FI-NGO, are the two commercial microfinance service providers that are working in these districts since early 2007. SBB has three branches and FORWARD has four branches in these districts.

Table 4: Working VDCs of the Commercial Microfinance Service Providers in Ilam and Panchthar districts as of September 2008

S.N.	Name of the MFIs	Branch Office	District	Working VDCs
1	SBB	Fikkle	Ilam	Fikkle, Pashupatinagar, Kanyam, Panchakanya, Godak and Laxmipur
2	SBB	Ilam	Ilam	Sunbek, Barbote, Shantidanda, Sagrumba, Mai-Pokheri, Godak and Ilam Municipality
3	SBB	Phidim	Panchthar	Phidim. Nagin, Bharpa, Chokmobu and Ranitar
4	FORWARD	Fikkle	Ilam	Fikkle, Pashupatinagar, Kanyam, Panchakanya, Laxmipur, Irroutar, Kolbong, Gorkhe, Nayabazar,
5	FORWARD	Ilam	Ilam	Sunbek, Barbote, Mai Pokhari, Godak, Sulbung, Mangalbare, Soyang, Ilam Municipality
6	FORWARD	Ranke	Ilam	Chameta, Phaphphok, Ektappa, Sakhejung
			Panchthar	Pauwasardam, Chilingdin
7	FORWARD	Phidim	Panchthar	Phidim, Bharpa, Chok-mabu, Nagin, Ranitar, Shiva, Subang,

Source: Field Survey, October 2008

Both SBB and FORWARD provide working capital loan to clients below poverty line[7] to start income generating activities or microenterprise of their choices. They adopt Grameen Banking System of micro-lending. They form groups of target households of 5 members and at least 2 and to a maximum of 8 groups in a locality are organised into a centre. Loan operation is governed by the principle of 2+2+1. They offer savings, credit and microinsurance services to their clients. Loan term is one year to be repaid in equal monthly installments. Loans are used for activities such as livestock, cardamom, potato, broom grass, ginger, petty trade, grocery store and marketing purpose. While loans are

[7]Poverty is defined based on housing index and national poverty line.

used for financing these activities, clients repay the loan regularly every month from other sources of household income.

As of September 2008, SBB and FORWARD have extended microfinance services to a total of 10,784 clients (with some duplication) organizing them into 2,155 groups[8] and 452 centers from their respective branch offices in Fikkle, Ilam and Phidim (case of SBB) and Fikkle, Ilam, Ranke and Phidim (case of Forward). They have disbursed a total of Rs. 119.5 million loans for income generating activities/microenterprises based on potentialities, of which Rs. 60.0 million was recovered and Rs. 62.2 million was the outstanding loan balance. There is no over-due loan, portfolio is clean and there is 100% on-time loan repayment rate on loan disbursed by the SBB and FORWARD. Total savings of the clients served by SBB and FORWARD is Rs. 8.3 million. Some pluckers in Kanyam, Fikkle, Pashupatinagar, Barbote, Sakhejung, Jasbire, Kobang etc. have already received financial services from them. Wholesale loan received from Rural Microfinance Development Centre (RMDC)[9] is the primary sources of loanable funds for SBB and FORWARD for on-lending to their clients in these districts. Farmer's federations and other key actors in tea value chain have yet to recognized the role of SBB and FORWARD to ensure access to financial services.

Box 1: Sustainable Micro Finance Operation in Hill Districts

FORWARD is one of the financial intermediary NGOs and Sawalamban Bikas Bank is one of the Microfinance Development Bank working in Ilam and Panchthar districts since early 2007 and they are quite successful to provide micro finance services in these districts. FORWARD have provided microfinance services to 5433 women in Ilam and Panchthar District with a total loan disbursement of Rs. 69 million organizing them into 689 groups and 186 centers. Similarly, SBB has extended microfinance services to 4456 women clients in two districts with a total loan disbursement of Rs 31.3 million organizing them into 909 groups and 170 centers. On-time loan repayment rate of both FORWARD and SBB branches is 100% and clients have repaid the loan regularly on equal monthly installments. All three branches of SBB and four branches of FORWARD have become operationally self-sufficient over the period of one year of their operation. Operation of FORWARD and SBB implies that microfinance programme can be implemented successfully and operational viability can be achieved in the hill districts.

Owing to very short loan term (<one year) and frequent loan repayment requirements (monthly), financial products and services extended by both SBB and FORWARD are not suitable to expand tea plantation which has long gestation period. Further, small loan size of SBB and FORWARD deters investment on capital intensive processing activities.

Table 5: Outreach of Commercial Microfinance Service Providers as of September 2008

S.N.	Particulars	Unit	SBB			Forward				Total
			Fikkle	Ilam	Phidim	Fikkle	Ilam	Ranke	Phidim	
1	Group	No	369	369	171	457	342	161	286	2,155
2	Centre	No	63	71	36	96	77	37	72	452
3	Members	No	1,845	1,845	861	2,285	1,709	805	1,434	10,784
4	Loan Disbursement	Rs. '000	27,200	18,210	4,961	32,794	17,796	4,495	14,081	119,537
5	Loan collection	Rs. '000	13,183	5,942	1,461	23,004	7,011	881	8,552	60,034
6	Outstanding loan balance	Rs. '000	14,017	12,268	3,500	12,490	10,785	3,613	5,528	62,201
7	Overdue	Rs. '000	0	0	0	0	0	0	0	0
8	Savings	Rs. '000	1,325	1,432	876	1,539	1,327	329	1,566	8,394

Source: Field Survey, October 2008

Cooperatives are community based FSPs with visible presence in these districts. There are at least four types of cooperatives namely SCCs, SFCLs, MPCs and TPCs involved on providing financial services on a varying scale. Number of SCCs, SFCLs, MPCs and TPCs

[8]These are Grameen type groups comprising of five members. They are not cooperatives.
[9]RMDC was established in 1998 to provide wholesale funding to regulated MFIs.

in these districts are respectively 50, 3, 90 and 30. While SCCs, MPCs and TPCs exist in both districts, there are SFCLs in Ilam district only. In general, these cooperatives are formal body characterized by democratic and highly participatory decision-making process. These cooperatives are community based organizations either self emerged or promoted by I/NGOs and have a history back to early eighties. There exists minor difference in formation and structure of SFCLs compared to other cooperatives.

Box 2: Formation of Many Cooperatives: Not Necessarily Provides Services to All

There are many cooperatives, both single purpose (savings and credit, dairy, tea, etc.) and multipurpose cooperatives in Ilam and Panchthar districts. There are at least 124 cooperatives in Ilam and 49 cooperatives in Panchthar districts that are involved on savings mobilisation and loan operation to some extent. There size is too small, there are very few cooperatives with shareholders more than 100 and only few (one in Panchthar and about 10 in Ilam) cooperatives are operated and managed professionally. Hence, despite more numbers of cooperatives, most of the people have not benefited out of the services extended by these cooperatives. There is a need to either increase number of shareholders in these cooperatives or amalgamate many small cooperatives into few large cooperatives in order to ensure scale economics and bring more people under the ambit of the services extended by existing cooperatives. Farmers cooperative federation can play a positive and constructive role to strengthen these cooperatives.

As a matter of fact, SFCLs are member-owned and controlled multi-service cooperative agency promoted under external influence to deliver both financial and non-financial services. It consists of three-tiered organization[10] and plays important role in rural civil society, by pooling joint resources to meet basic needs and to defend members' interests. In these districts, formation of SFCLs started in 1996 and compared to other cooperatives, SFCLs are characterized by improved cohesion and communication within shareholders. They have provided loan to pluckers living in these VDCs organizing them into solidarity groups. The three SFCLs in Ilam district receive wholesale loans from Sana Kisan Bikas Bank (SKBB)[11] and on-lend to there shareholders. Due to lack of understanding and clarity on operation, all the three SFCLs in Ilam district were attacked by Maoist during the conflict period resulting in slackness on their operation.

Table 6: Outreach of Three SFCLs as of September 2008

S.N.	Particulars	Unit	SFCL			Total
			Sri Antu	Samalbung	Jitpur	
1	Members/Shareholders	No	649	382	398	1429
2	Group	No	107	68	70	245
3	Inter group	No	13	9	11	33
4	Main Committee	No	1	1	1	3
5	Outstanding loan balance	Rs. '000	13,940	9,475	11,725	35,140
6	Overdue	Rs. '000	9,348	7,415	9,941	26,704
7	Savings	Rs. '000	1,910	2,315	2,194	6,419
8	Lending on Tea sector					
a	Outstanding loan balance	Rs. '000	4,305	2,395	3,379	10,079
b	Overdue	Rs. '000	1,486	881	1,751	4,118
9	Share capital	Rs. '000	188	120	135	443
10	Loan with SKBB	Rs. '000	12,400	8,383	9,513	30,296

Source: Field Survey, October 2008

In the past, these SFCLs have extended financial services to small scale tea producers. Owing to poor repayment performance and high overdue build-up, these SFCLs stopped lending on tea plantation in these districts. The problem was further aggravated after the

[10]This includes solidarity groups at village level, inter-groups at ward level and main committees at VDC level. Main committee is registered as cooperatives under Cooperative Act 1990.
[11]SKBB was established in 2001 to outsource the wholesale funding to SFCLs and similar institutions.

budget speech of the Honorable Finance Minister regarding waiver of loan less than Rs. 30,000 and interest exceeding Rs. 100,000.

Box 3: Improper Guidance and Technical Support Erodes Potentialities

There are a total of 30 (27 in Ilam and 3 in Panchthar districts) Tea Producers Cooperatives (TPCs) in Ilam and Panchthar districts. Over 90% of these cooperatives have included five VDCs as their working areas in their bylaws. Despite huge working areas, operation of most TPCs is confined in one or two VDCs and number of their shareholders is less than 100 in most TPCs. Their share capital is quite significant (more than 80% of total asset) and only few (e.g. High Hill, Green Hill, Ajambare) are involved on savings mobilisation and using of accumulated fund for loan operation. Mostly these cooperatives were formed to obtain support and grant from government and are not financially self sustained. They have not realized the significance and comparative advantage of having larger cooperatives and currently operating at below potential. Field studies reveals that they are not properly guided and have not received adequate technical support at the time of cooperative formation as well as their operational management. Farmer's cooperative can conduct some promotion and management initiatives and provide proper guidance to operate them at full potential.

During field studies, the team surveyed few SCCs, MPCs and TPCs. These cooperatives are in general characterized by few shareholders despite defined working area of five VDCs for most cooperatives. Savings mobilisation is low despite high paid-up (share) capital. It is apparent that these cooperatives are mis-guided and have insufficient orientation to operate at operational and financial self-sufficiency level.

2.4 Microfinance Programmes

Since mid 1970s Government and NRB implemented at least six rural development programmes[12] with credit component to extend group approach to financial services delivery to un-served poor and dis-advantaged communities in these districts for promoting income generating programme/microenterprises. These programmes focus to organize target people into User Groups/Savings and Credit Groups (UGs/SCGs) with savings collection and loan operation as one of key activities and are highly deep-rooted with hardly any clusters or villages in these districts without UGs/SCGs with huge savings base. There are cases where member of the households have participated in more than one UG/SCG supported by different programmes.

Table 7: Users' Group/Savings and Credit Groups in Ilam and Panchthar Districts as of September 2008

S.N.	Particulars	Unit	Value
1	Rural Development Programmes	No	6
2	SCGs	No	1,375
	Male only	No	387
	Female only	No	535
	Mixed	No	453
3	Members	No	31,112
	Male	No	14,851
	Female	No	16,262
4	Savings mobilization	Rs. '000	29,697

Sources: Field Survey October 2008.

UGs/SCGs are promoted either targeting among households below poverty line or using integrated approaches (credit plus initiatives) covering at least 80% households in a settlement. Mainly UGs/SCGs are promoted adopting homogeneity and joint liability principles at village or settlement level. Numbers of member per UG/SCC ranges

[12]They are Small Farmer Development Programme, Production Credit for Rural Women, Intensive Banking Programme, Local Trust Fund Initiatives, Jagriti, Bishwor with the Poor and Rural Urban Partnership Programme.

between 9 and 60 with an average of 23 members. UGs/SCGs act as financial and non-financial service delivery units at grass-roots level of most rural development programmes. In most cases, UGs/SCGs are the body for the members to start their loan application process, pool monthly individual and other compulsory savings and carry out other activities viz. marketing, farming and community development.

As of July 16, 2008, there over 1375 UGs/SCGs in Ilam and Panchthar districts with over 31,112 members, all of which mobilize members' financial savings and use them for lending to promote income generation, asset creation and social/economic development. The savings mobilized by these programmes are estimated at Rs. 29.697 million. UGs/SCGs are one of the institutional infrastructures yet to be properly used in the rural microfinance market of these districts. A sort of frustration is evident among UGs/SCGs members owing to lack of mechanism to use them at full potentials due to lack of vision to link these groups with FSPs or federating them into community based FSPs.

2.5 Local NGOs in Microfinance Sector

There are numbers of NGOs active in the microfinance sector as promoters. In their roles as promoters, these NGOs facilitate group formation of poor and disadvantaged people that generate internal resources through members' savings and use the fund for on-lending to members. NGOs occasionally provide seed money to these groups. The groups often disintegrate when the programs implemented by the NGOs come to an end and cease to provide technical support. NGOs have also supported to transform some promising groups into SCCs.

Mahila Jagaran Sangh, a NGO based in Ilam municipality, has been involved on strengthening SCCs and MPCs involved in savings mobilisation and on-lending to their members. They have identified 108 such cooperatives in Ilam districts and undertook their ratings. They have classified 108 such cooperatives into three: 21 as grade A, 68 as grade B and 19 as grade C and currently involved on enhancing their capacity based on their areas of weaknesses.

Alternative Energy Development Centre (AEDC), a NGO based in Phidim, Panchthar has been involved linking microfinance services providers to ensure access to finance on alternative energy (Solar Home System and Biogas). AEDC is working in partnership with five cooperatives located in different parts of Panchthar districts. The cooperatives are: Panchthar Urja Cooperative, Phidm; Fungsing Mahila cooperative, Sarangdanda; Rabikiran Mahila cooperative Rabi; and Amarpur Multipurpose Agricultural Cooperative Limited Amarpur. AEDC is facilitating these cooperatives to obtain financial support from Bank of Kathmandu, Clean Energy Development Bank, Nabil Bank, ADBL and Sana Kisan bikas Bank to promote financing for SHG.

Other NGOs like Sungava, Ilam Cooperation Council, Namsaling Community Development Centre and HUCODEC were also involved as a promoter for the provision of financial services. Due to high level of technical requirements for institutionalization, most of these NGOs phased-out their involvement on microfinance sector.

2.6 Rural Enterprise Assistance Programme and Financial Services

Considering the paramount role of access to finance for enterprise development, Rural Enterprise Assistance Programme (REAP) linked the micro-entrepreneurs trained under the programme with Local Development Fund (LDF) for access to financial services. They have done quite a remarkable work in tea sector in Ilam and cardamom sector in Panchthar district. The microentrepreneurs could not either establish the business or scale-up their operation due to lack of access to financial services. The problems could not be resolved despite realisation of significance of access to finance for REAP implementation.

3. OVERVIEW OF TEA SECTOR IN ILAM AND PANCHTHAR DISTRICTS

3.1 Introduction

The tea industry began in 1863 in the Himalayan area with the first factory for processing built in Ilam of Ilam district in 1878. Although tea was known as a commercially viable crop, it's significance as an export earner and commercial crops was identified by the government only in 1982 with the designation of eastern districts: Jhapa, Ilam, Panchthar, Terhathum and Dhankuta of Nepal as tea zones and assisted for the tea sector growth and development.

Enactment of Nepal Tea and Coffee Development Board Act in 1993 and setting up of the Tea Board provided further impetus for the tea sector as it enabled tea sector to be more organized and potentially significant sector. A National Tea Policy was introduced in 2000 to support the Tea sector growth. The Government divested their holdings so that the private sector would become the engine of growth for the industry envisaging that tea would be one of the major crops for poverty reduction in the rural and Hill areas and become a significant export earner. There has been a significant increase of export in quantity and value of tea over the past years.

Due to the varied weather conditions and soil composition two types of tea are grown in Nepal namely Cut, tear and curl (CTC) tea and Orthodox tea. While CTC tea is grown in the Tarai districts (Jhapa and Morang), orthodox tea are grown in hill (Ilam, Panchthar, Terhathum, Dhankuta, Sindhupalchok and Dolakha) districts. It is a seasonal crop with no harvesting during cold months. The first flush leaves come out in May/June and followed by the second flush. The rainy period starts in July and more weathery tea is processed at this time, which is lower in quality. Again in August/September, the leaf improves with good sunshine and dry winds to give the Autumnal teas with better quality. This quality differences are more pronounced in the orthodox teas compared to CTC tea.

Nepalese tea plantations benefits out of diverse agro-climatic conditions and have comparatively young bushes with 29% of smallholder farmers owning bushes less than 5 years old. The bushes are grown both from clones and seed stock varieties and enable producers to capitalize these natural conditions to increase production, diversify product range, and improve on quality with proper application of new developments using modern technology. A large number of small holder farmers are engaged in growing both CTC and Orthodox tea and over 30,000 people are directly involved in the industry with a large percentage being rural women.

Orthodox tea is grown in Ilam and Panchthar districts from varieties of clones and production and processing system are close to the technologies adopted in Darjeeling of India. With tea growing areas very close to each other, across the borders of the two countries, the plant material used come from the same mother bushes and clones. As the machinery used for processing being the same supplied by Indian manufacturers, the final product range of Orthodox tea is almost similar. Over 90% of the produce is exported to India officially/unofficially whilst the small balance finds their way to international tea markets in small parcels at attractive prices. A large volume of the green leaves from these districts also find their way to Indian factories in Darjeeling.

3.2 Tea Production

A large number of small holder farmers are engaged in tea growing in Ilam and Panchthar districts and their contribution in total production is increasing over the years as more small farmers are being attracted towards tea cultivation due to many reasons, including its profitability compared to other substituting crops. Both total area and production of tea in Nepal have increased tremendously over the years and at an

increasing trend. Both tea production and tea cultivation by both smallholder farmers and larger gardens/plantations has grown considerably in recent years. The NTDC was privatized in 2000 and accordingly area and production under it are reported into private sector category and there has been a sudden jump in area and production under private category in 2000/01.

Table 8: Total Tea Production and Tea Plantation Area Tea Plantation area in hectares Tea production in Kg's

Fiscal year	Tea Plantation area in hectares					Tea production in Kg's			
	Private	NTDC[13]	Small Holders		Total	Private	NTDC	Small holders	Total
			No. of small farmers	Plantation area					
1992/93						75,400	860,000		935,400
1993/94			1,191	493		687,000	982,000	75,000	1,744,000
1994/95			1,788	644		837,000	1,009,403	10,000	1,856,403
1995/96			2,243	828		1,500,000	1,112,329	125,000	2,737,329
1996/97	1,685	938	2,390	879	3,502	1,800,000	925,942	18,000	2,743,942
1997/98	2,192	938	2,591	1,385	4,515	194,655	603,136	468,980	1,266,771
1998/99	6,073	938	4,915	3,239	10,250	3,577,857	496,881	418,242	4,492,980
1999/00	6,073	938	4,915	3,239	10,250	3,577,857	496,881	1,010,499	5,085,237
2000/01	8,179		5,310	3,818	11,997	5,089,579		1,548,503	6,638,082
2001/02	8,179		5,575	4,186	12,365	5,864,720		1,653,855	7,518,575
2002/03	8,321		5,760	4,314	12,635	6,478,000		1,720,000	8,198,000
2003/04	8,869		6,252	6,143	15,012	7,714,669		3,956,535	11,671,204
2004/05	8,312		6,845	6,989	15,301	7,789,893		4,816,188	12,606,081
2005/06	8,912		7,154	7,100	16,012	8,443,907		5,244,320	13,688,227
2006/07	9,011		7,593	7,409	16,420	9,340,656		5,826,989	15,167,743

Source: National Tea and Coffee Development Board

Government initially targets to expand area under tea production around 28,000 ha in 2010 and further growth to reach 62,000 ha in 2020, however, the expansion has been much lower and at a slow pace. Accordingly, government has revised the target to bring about 18,000 ha under tea cultivation by 2010. Nonetheless, growth has been impressive. There are reportedly a total of 12,200[14] smallholder plots, 134 medium sized gardens and 38 large plantations. Combined, these produce a total 15.1 million kgs of made tea of which 1.8 million kgs is orthodox type.

Table 9: Type of tea produced 2005/06

Particulars	Orthodox		CTC		Total	
	Area (ha)	Production (kg)	Area (ha)	Production (kg)	Area (ha)[15]	Production (kg)
Garden	2,805	542,090	6,107	7,901,817	8,912	8,443,907
Small holders	4,231	1,113,060	2,869	4,131,270	7,100	5,244,330
Total	7,036	1,655,150	8,976	12,033,087	16,012	13,688,237

Source: National Tea and Coffee Development Board

Information presented in above table indicates that smallholder farmers account for 67 and 34 percent of the production of orthodox and CTC tea respectively[16]. According to NTCDB field representatives and farmers in the CTC area, the average yield per plant is 1.55 kg per annum and the density of plants is 14,000 per ha. Farmers in CTC areas are able to get a fair price for their leaf, almost double their cost of production (COP), during better times whereas orthodox tea farmer suffers very often obtaining a price about 10-15% lower than their COP. In orthodox areas, however, the yields are significantly low,

[13]The Nepal Tea Development Corporation (NTDC) was established in 1966 by Nepal Government. Government divested their holdings so that the private sector would become the engine of growth for the industry.
[14]Data collected from associations/chambers/and INGO/NGO's suggests that a total of 12,200 smallholder farmers are active in areas concerned.
[15]Please note that other data sources suggest a total of 15,700 ha in 2005/2006
[16]These data should be taken with care though, as more than 11 plantations and 45 gardens (mostly non-small farmers) have not yet been registered with NTCDB. Also, other data suggests that smallholder farmers account for 26.5 % of the CTC produce.

nearly 25% lower than India and 30% below Sri Lanka. In the CTC areas the yields are lower than in Kenya. As the international tea market is very competitive, relative low yield is a cause of concern for future growth and development of tea sector in Nepal.

At the factory level, there seems to be no fixed method of calculation to arrive at the green leaf price. Farmers have to accept price levels indicated by the factories and virtually lack any bargaining power. In the CTC areas, the Siliguri auction prices fixed by traders involved on tea sector are used as a guideline and are reviewed every week whereas in the orthodox regions they are completely at the mercy of the factory. Owing to this, farmers from Ilam district opt to sale tea leaves to CTC factories in Jhapa district. Further, farmers sometimes get paid almost after six months from date of direct delivery to the factories. They prefer to sell to middlemen or tea dealers as most often money is paid immediately on delivery. However they are beaten down on price by about 10-20%. In the recent years the tea producers cooperatives are playing a role of intermediary between producers and tea factories. Those who follow the Code of Conduct or are producing tea under organic environment are able to get a premium of nearly 20% for their green leaf. The farmers are unable to get an accurate calculation of their cost of production (COP) and very often financial costs are not taken into account. Even fertilizer and pest control inputs seem to be inaccurately compiled. This is due to lack of knowledge of simple costing methods.

There are three categories of tea farmers namely smallholder farmers, medium sized garden and big plantations[17]. The smallholder farms are generally well maintained with plant population being adequate, although in some instance overcrowding of tea plants was observed. In the Panchthar and Ilam the plant population in the plots observed were less and more scanty. The incidence of pests, insects and fungi was more as this region is damp and is more conducive for them to thrive. Medium sized gardens and big plantations refer to tea gardens in excess of 40 ha and with many having their own processing factories. The larger estates average lower yields/ha than smallholder farmers. Their yields are lower being around 14,500 to 16,000 per ha. Coarse plucking and haphazard use of chemicals are quite common. As far as tea plantation and production is concerned, bulk of the tea is grown in Jhapa (only CTC grown there) and this district alone accounts for approximately 88% of the tea production of Nepal. This is followed by Ilam (9.5%) and Panchthar (1.5%).

Table 10: Geographical Distribution of Production

S.N.	Districts	Garden		Small Farmers			Total		
		Area	Production (kg)	Area	Production (kg)	Farmers (No)	Area	Production (kg)	% of Total
1	Jhapa	6,107	7,901,817	2,869	4,131,270	857	8,976	12,033,087	87.9
2	Ilam	1,347	406,220	3,469	889,350	4,647	4,816	1,295,570	9.5
3	Panchthar	382	80,220	141	119,114	297	523	199,334	1.5
4	Dhankuta	219	45,990	425	36,334	789	644	82,324	0.6
5	Terhathum	23	4,830	123	36,344	247	146	41,164	0.3
6	Other	834	4,830	72	31,928	317	907	36,758	0.3
	Total	8,912	8,443,907	7,100	5,244,330	7,154	16,012	13,688,237	100.0

Source: National Tea and Coffee Development Board

Although crop diversification in tea has been looked into, due to maximum land usage and close planting of bushes, there is not much area left for any other crops to be in-planted. However most farmers have short term mixed cash crops such as vegetables, corn to supplement their income making maximum use of the space available during initial years. This type of mixed integrated farming which causes minimum damage to ecological system must be encouraged as they form self-sustainable units and bring in additional income. They should not only have mixed crops but also livestock rearing cattle, buffalo, goats, poultry and ducks both for consumption and sales. The tea

[17]Smallholders are those with tea garden less than 40 ha. that of medium sized garden are those between 40-100 ha and big plantations are more than 100 ha. with processing plants of their own.

plantation is very much integrated with livestock farming and the animal waste is being used getting biomass/organic manure and discourages the use of chemicals.

There are two main types from the same botanical plant species, Camelia sinensis, which had been developed at the Indian Tea Research Station and used extensively in Indian tea gardens, which have been introduced in Nepal for planting in two different growing areas. The **clone varieties** developed from cuttings from mother bushes are used in tea gardens in Tarai regions of Jhapa and Morang districts. These are ideally suited for the processing of CTC variety where the leaf is more succulent. In the hilly areas **varieties from seed stock** are used to propagate nursery plants. These too have been experimented and developed in India at their Tea Research Station for the Darjeeling region and introduced into Nepal. Their leaf is more leathery and during changing climatic cycles, concentration of juices varies thus giving aroma and flavor for limited periods.

3.3 Tea Processing

With mainly two types (orthodox and CTC) of tea being processed, the factories and machinery used are dissimilar. The basic process, however, is the same being withering, rolling, fermentation, and drying with adjustments on time frames and using different method to obtain final products. In Ilam and Panchthar districts tea processing is done at three levels: basic household units, mini processing units and larger factories.

Household units and mini processing units[18] are small cottage level workshops where withering is done on crudely turned out troughs and withered leaves are hand rolled in wooden pans. The product is a green tea of about 5 grades ranging from the full leaf to smaller grade. The output per day is about 8-10 kgs. It is likely that small holders having bigger plots of around 5 ha or less are engaged in this type of processing, doing their own direct marketing at the small townships on a busy day.

There are 17 (12 in Ilam, 2 in Panchthar and 3 in Dhankuta) orthodox tea factories located in the hilly areas of Ilam, Panchthar, Terhathum and Dhankuta and are styled along the lines of Indian Darjeeling factories. Their capacities range from 100 MT per annum to 500 MT. They have a green leaf collection area to receive raw material and large withering troughs. Each factory has between 4-6 rollers of Indian type with different tables and battens to the ones used for conventional orthodox tea processing with 2-3 driers of UK or Indian manufacture and a sufficiently well equipped sorting and packing room. In these factories, there is separation of leaf supplied into two categories of COC certified farmers and others. Nearly 90% of the product goes into the Indian market, with about 7% to EU, 3% consumed locally mainly in big cities, marketed to expatriates/tourists and about 1% in special gift wrapped units.

3.4 Tea Export

Due to a strategy of expansion, the total area for tea cultivation has increased with some 450 % over the last 10 years and growth of tea exports from Nepal is even more impressive, and reached some 650% over the last decade while imports has been reduced by 800% (Table 11).

Table 11: Growth in cultivation and trade of Nepalese Tea

Particulars	1996/97	2005/06	2007/08	Percentage increase / decrease	
				1996-2005	2005-2007
Area (ha)	3,500	15,700		450	
Imports (million kg)	6.2	0.5		(800)	
Exports (million kg)	0.77	5.0		650	

Source: Agricultural Statistics of Nepal 2006 and Trade Statistics of Nepal 2006

[18]These are different and outputs are also different.

Nepal tea industry is very vulnerable due to their dependency on Indian market for 90% of orthodox and nearly 40% for the CTC teas are sold in India. Therefore any changes on Indian price and export policy will cause severe price fluctuations in Nepalese tea.

Table 12: Export and Import of Tea from Nepal to India

Year	Export						Import	
	Green Tea		Black Tea		Total		Total	
	Kg	Rs.'000	Kg	Rs.'000	Kg	Rs.'000	Kg	Rs.'000
1999/00	410,207	58,195	-	-	410,207	58,195	736,533	74,854
2000/01	360,800	25,496	39,518	7,874	400,318	33,370	757,890	82,055
2001/02	482,158	2,455	1,613,994	262,469	2,096,152	264,924	408,946	44,421
2002/03	28,714	6,006	2,839,350	219,697	2,868,064	225,703	291,946	28,640
2003/04	2,983,176	264,549	1,024,500	113,749	4,007,676	378,298	323,966	31,297
2004/05	704,196	98,825	3,608,681	347,512	4312,877	446,337	330,327	31,157
2005/06	80,449	7,246	4,279,524	375,579	4,359,973	382,825	195,093	18,196

Source: Department of Customs.

Tea is also exported to countries other than India. Information on export of tea to third countries (expect India) are provided in Table 13.

Table 13: Export of Nepal Black and Green to other countries except to India

Country	Black tea quantity kgs	Black Tea Value (in NRs)	Green Tea Quantity kgs	Green Tea Value (in NRs)	Total Quantity kgs	Total Value (in NRs)
Bangladesh	4,800	40,752			4,800	40,752
Japan	6,267	1,707,715	856	930,903	7,123	2,638,618
Korea R.	859	16,497			859	16,497
Pakistan	327,086	28,770,246	13,720	119,662	340,806	28,889,908
Taiwan	1,942	1,502,676			1,942	1,502,676
UAE	264,256	24,987,263			264,256	24,987,263
USA	2,832	923,960	8,147	537,229	10,979	1,461,189
France	2,843	2,886,468	38	351,080	2,881	3,237,548
Germany	65,176	28,808,721	3,791	1,922,318	68,967	30,731,039
UK	38	25,508			38	25,508
Latvia	2,367	27,036			2,367	27,036
Hong Kong	5,000	155,892	525	21,663	5,525	177,555
Canada	115	54,455	156	139,270	271	193,725
Italy	1,200	43,830			1,200	43,830
Czech Rep	61,665	2,446,551	60,545	2,331,211	122,210	4,777,762
Total	746,446	92,397,570	87,778	6,353,336	834,224	98,750,906

Source: TEPC

Over 90% of orthodox tea processed is sold to India through official and unofficial channels. Reportedly, nearly 60% of the CTC tea is sold in domestic market[19] whilst over 30% of the total balance goes to India. There is some interest now coming from Pakistan with about 10% exported in the last year.

Nepal's dependency with India as a trading partner for tea has increased tremendously in the past 5 years which is the indicator of Nepal's vulnerability. It is therefore imperative that Nepal's agricultural produce and expansion of international markets must be diversified. This is important in view of a very large cross border trade going on primarily with India although there is also some border trade with Tibet. Considering the fact that there are land area in the orthodox region is 6,700 ha; assuming that the productivity of made tea per ha is 750 kg per ha; and published figure of processed

[19]The available data on the national per capita consumption is very low at 350g for a population of 28 m. This indicates the country's total consumption being nearly 9.0 m kgs per annum. However basing on the data available of domestic market of sales figures the local market is only around 7 m kgs giving a per capita figure of 2.57 kg. These figures belie the drinking habits as it is apparent that there is much more consumption of this preferred hot beverage. The quantities consumed in the northern areas, where free access is difficult and the use of home grown/made tea seems to be unaccounted in the available data.

orthodox tea of only 1.8 million kg, it appears that of the total potential production of 5.02 million kg, 3.2 million kg made (i.e. over 200%) tea equivalent to 17.1 million kg of green leaf from orthodox areas are going across the border to India. They may be sold locally in mountain areas by small householders' domestic production units. The imposition of strict control at the border and stopping of imports of orthodox made tea and green leaf by India caused a complete stoppage to otherwise free flow of export and sharp price declines occurred, whilst green leaf became unsaleable and unusable. This calls for immediate arrangements for added processing units and strengthening of the tea value chain.

3.5 Tea Supply Chain

Tea is a cash crop that has potential to provide an increased income to all the actors in tea supply chain. As opposed to a production channel of Tea estates or private entrepreneurs (having both farms and processing factories), the actors in supply chain of smallholder farmers' category consists of following: farm labourers, smallholder farmers, producers' groups, and processing factories.

Labourers

Work on tea farms, especially plucking, is labour-intensive, and often done by women. The main activities of tea workers are harvesting (highly labour-intensive), fertilizing (manual application of fertilizers), weeding, pruning (mainly done by men), soil conservation, control of pests and diseases and other sundry activities. The Labourers consist of the bottom most tiers in the production chain. Nonetheless, they have significant contribution in the tea industry. However, there is no clear distinction between a small holder farmer and a labourer. For the purpose of this study labourer is defined as that individual who works in somebody else's farm for a given time period and is paid according to a pre-determined wage rate. This definition needs to be articulated clearly because, most often farmers are involved in their farms in the following two modes: a) work in their own farm and perform most of the task that the hired labourers would do; b) follow the *parma* system which entitles the farmers to help out their neighbours and relatives in their farms, and likewise, the neighbours and relatives will come and help out the farmer who had helped them. This basically means paying back assistance and support in kind. The other mode of performing the farm tasks is to hire labour. Those farmers having large areas of land or those who are unable to perform the tasks themselves (or through their family) hire labourers. Labour requirement in tea farming can be classified into two broad categories such as semi-skilled labour and skilled labour and can further be classified according to the nature of the job.

Semi-skilled labour: The semi skilled labourers are mainly involved as pluckers. Number of absentee plucker is very low and there are at least four categories of pluckers in Ilam and Panchthar districts.

- Who also have own tea farm but also work as labour exchange for others;
- Who also have own tea farm but also work as wage labour for others;
- Who do not have tea farm but work regularly for particular farmers as neighbours; and
- Who do not have tea farm and not stay the area for long time.

Plucking is an activity where leaves from growing tips of tea bushes are plucked and collected into baskets which pluckers, often women, carry on their back. The full baskets are taken to a collection point, where they are weighed and then transported to the processing factory via porters or vehicles. As plucking is done for almost 7 months a year (from mid April till mid November) and this activity warrants maximum number of labourers. Even though pictures of tea farms portray only young plucker women with bamboo baskets on their backs, in Ilam it was observed that both men and women are involved in the plucking of green leaves. However, there seems to be a slight tendency

to regard plucking as a "woman's job". During the field visits, both men and women were encountered and even school-going children were also found to be involved in plucking.

Though in general, plucking is regarded as an easy task and does not require much effort and skill, tea technicians and experts on tea farming mention that the quality of the tea is determined by plucking quality. In general, the fine the plucking is, the better the quality of the made tea. Fine plucking is referred to the plucking of the 'two leaves and a bud' of a tea plant. If this rule of thumb is not maintained, then the mixing of other leaves and the branches will result in a degraded quality of made tea. Hence, if the plucker is not careful enough then overall quality of tea may not improve. However, there seems to be less or no such efforts from farmer's side to groom/ teach the labourers on best plucking methods or on the need to take more care on plucking green leaves. More often, the labourers in one field are not always the same, and even though the farmers direct the labourers to pluck only '2 leaves and a bud', lack of awareness lead the labourers not to heed the directions carefully.

Other types of semi skilled labour are manuring and weeding which require more manual labour than any other activity where both men and women are involved. Manuring is an activity whereby fertilizers, pesticides, manures (compost, cow-dung etc) are applied to the plants and tea fields. Weeding on the other hand is an activity whereby weeds and other unnecessary plants are removed and weeded plants are left to mulch on the base of tea plant. Weeding may be done through bare hands or in some cases sickles or other tools are also used.

Skilled labour: The skilled labour consists of activities such as pruning and skiffing which is done according to pruning cycle. Pruning and skiffing are both considered as skilled labour and are done mostly by men. Even though there is no discrimination on the basis of gender and others, these skilled labours require more physical effort and are generally not performed by women. However, key informants and lead farmers hinted that there are exceptions where women are also involved in performing the 'heavy jobs'.

The labourers are hired by farmers in two ways: a) they are hired on a daily wage basis whereby wages are determined according to the prevailing market rate; b) specific activity is contracted (leased) out to some groups of people or individuals for a negotiated price. Regarding the wage rates for the labourers, the low price of tea offered by the factories to the farmers is clearly reflected in the wages of tea labourers. Since labour costs constitute some 55-60% of the overall tea farming costs, wages are the first item to be sacrificed when low tea prices affect the farm. The wage paid to labor ranges between Rs. 80 and Rs. 120 per day for pruning and skiffing while it ranges between Rs. 50 and Rs. 70 for plucking, manuring and weeding.

Smallholder Farmers and Tea Producers' Groups

Unlike the Tea Estates (having both tea plantation and processing factories), the smallholder farmers are involved in tea farming as a household level enterprise. Tea farming among such smallholder farmers may be in the form of owning several bushes in the backyard to having a farm as big as 5 hectares and more. The last decade has seen a phenomenal increase in the number of small holder farmers entering the tea farming business in terms of area and production. The cultivation of tea is attractive to small farmers because tea provides work and income throughout the year, it also requires relatively little investment, and the risk of complete crop failure is small. In terms of their involvement in sales and production, small farmers can be broadly grouped into three categories as under.

- Have own mini-plant for final processing;
- More for green leaf sales but have own semi-processing facility (e.g. dryer) and
- Only for green leaves sales with no processing facility.

Small farmers are organized into their respective groups (75 groups in Ilam and 13 groups in Panchthar) through which they sell their leaves to the bought-leaf factories. There groups are federated into Tea Producers Cooperatives with 27 such cooperatives in Ilam and 3 in Panchthar districts. On the basis of operation of these cooperatives / groups, they can be broadly grouped into three as under.

- Well functioning with prospects to access wholesale loans (external finance);
- Well functioning within their own finance flow (to small to get scale merit); and
- Not functioning.

Prices paid for the green leaves are usually low and as a result the value addition and profit made by small farmers is also relatively low. Tea supplied by small farmers has the - sometimes justified - reputation of being low in quality due to problems in transportation and the costs involved, which often depresses the price paid for the green leaves. Small farmers generally lack the necessary knowledge of picking and storing tea leaves, and of bush, soil treatment, pests and diseases management. Transport facilities are poor, which means that it often takes too long for the tea to arrive at the bought-leaf factories.

Even though the nature of tea farming is very complex and needs constant supervision and monitoring in the field and guidance by skilled technicians, farmers are often not able to accord this required level of care and effort due to absence of knowledge and the lack of access to it.

But with the small farmers getting organized and associated into groups, it is hoped that this will help them to get better organized and share knowledge, resources, funds etc. and could also contribute in collective bargaining and even establishing factories for the processing of green leaves.

Tea Processing Factories

There are three bought leaf factories or tea processing factories (Gurese, Himalayan Shangri-La and Mist Valley) do not have their own Tea plantations and depend on the small farmers for the green leaves to run their factories. In terms of investment structure and ownership, these factories are (i) share-holding by factories and other local residents plus other sources; and (ii) more investment by private sectors outside.

Irrespective of their ownership structure, the tea processing factories purchases the tea leaves from the tea farmers, then process it in their factory, package it and then sell the made tea under their own brand. The farmers bring their green leaves to the collection center where the leaves are weighed and graded according to the quality (90% two leaves and a bud, 80 % two leaves and a bud, 70 % two leaves and a bud with several *banjhi* leaves etc.). The leaves are then transported to the factory where it is immediately put into the withering trough.

There are labourers working in the tea processing factories, In terms of their involvements, these labourers can be broadly categorized into four as under.

- Skilled and formal labour (salary based)
- Skilled but informal labour (daily wage)
- Unskilled but formal labour and
- Unskilled but informal labour

The two tea processing factories (Himalaya Shangri-La Tea Industry (P) Ltd. and Small Farmers Tea Industry (P) Ltd. in Doctorkhola, Fikkle) in Ilam that are signatories of the Code of Conduct (CoC) in orthodox tea program have agreed to purchase all the green leaves supplied by the CoC signatory farmers. On top of that, the factories have also agreed to pay a premium of Rupees 2 per Kg of green leaves to the CoC farmers. Apart from that, the factories are required to have a different set of processing system

whereby the green leaves under the CoC agreement is not to be mixed with the ordinary tea. Special care is also given to maintain the quality of tea throughout the entire production process.

The rates for the green leaves are determined single-handedly by the factories before the onset of the First flush (March, April). The rates are given according to the quality/ grade of the green leaves delivered by the farmers. The price rates are often revised (according to the pressure and the quality of the green leaves received) during the monsoon and the autumn flush. The Bought Leaf Factories pay the farmers in quarterly installments (in March, June and December every year).

Regarding the rates provided by the factories, farmers are often not satisfied with the price rates offered. They complain that the rates are far less than they deserve and claim that the revenue from tea is not enough to even cover the labour and transportation costs. On the other hand, the factories claim that they are unable to pay higher rates to farmers due to the sluggish demand of Nepali tea in the International market and thus low sales of their products.

3.6 Tea Value Chain

Schematic diagram showing the orthodox tea value chain in Ilam and Panchthar districts are provided in Annex 4. The orthodox tea value chain in both districts is almost identical. Table 14 summarizes the key features of the tea value chain in both districts.

Table 14: Overview of Tea Value Chain in Ilam and Panchthar Districts

Level of Value Chain	Key Actors at Value Chain	
	Ilam	Panchthar
Input supply	▪ Tea nursery ▪ NTCDB ▪ Agro-traders ▪ Tea state ▪ Sunworks Kathmandu	▪ Tea nursery ▪ NTCDB ▪ Agro-traders ▪ Tea state
Production/cultivation	▪ Tea farmers (4,647) ▪ Tea State (7)	▪ Tea farmers (523) ▪ Tea State (1)
Transportation of green leaves	▪ Tea factories, ▪ Tea Producers' Cooperatives	▪ Tea factory
Processing	▪ Hand processing (households and mini plants) ▪ Tea Factory	▪ Hand processing (households) ▪ Tea Factory
Transportation of made tea	▪ Transport companies	▪ Transport companies
Wholesalers/Retail	▪ HIMCOOP ▪ Broker/Packers/ Wholesalers/Exporters	▪ HIMCOOP ▪ Broker/Packers/ Wholesalers/Exporters
End market	▪ Domestic (5%) ▪ International (95%)	▪ Domestic (5%) ▪ International (95%)

Source: SNV Nepal, 2008

The orthodox tea value chain in both districts consists of seven layers namely input suppliers, producers/cultivators, transporters of green leaves, processors, transporters of made tea, wholesalers/retailers, and end market. Each of these actors have great role for the growth and development of the tea sector.

There are support services to promote tea sector which can be broadly grouped into two: business services and enabling environment. These service providers exist at three levels such as micro, meso and macro. While service providers at micro-level provides direct support for strengthening tea value chain, those service providers at meso level are involved on providing business services to actors in tea value chain directly and indirectly. Macro-level service providers have more role to plan on creating enabling environment for growth and development of tea sector. Information on support services providers in both districts at three levels discussed above are provided in Table 15.

Table 15: Business Service and Enabling Environment Services in Tea Value Chain in Ilam and Panchthar Districts

Level of services	Type of services	Key Actors	
		Ilam	Panchthar
Micro	Business Services	▪ Labour/Pluckers, ▪ VDC ▪ Tea farmers' Groups, ▪ Farmer's Federation,	▪ Labour/Pluckers, ▪ VDC ▪ Tea farmers' Groups, ▪ Farmer's Federation,
Meso		▪ DDC ▪ Tea Producers' Committee, ▪ District Cooperative Federation for Tea, ▪ NTCDB, Outreach and Regional Office, ▪ ADBL, ▪ SBB, FORWARD and financial cooperatives	▪ DDC ▪ Tea Producers' Committee, ▪ NTCDB, Outreach and Regional Office, ▪ ADBL, ▪ SBB, FORWARD and financial cooperatives
Macro	Enabling Environment	▪ ICIMOD ▪ Members of Tea Alliance (TEASEC, NTCDB, HOTPA, HIMCOOP, AEC/FNCCI, GTZ, JICA), ▪ ADB ▪ MOA ▪ MOTL ▪ ADBL ▪ NRB	▪ ICIMOD ▪ Members of Tea Alliance ((TEASEC, NTCDB, HOTPA, HIMCOOP, AEC/FNCCI, GTZ, JICA), ▪ ADB ▪ MOA ▪ MOTL ▪ ADBL ▪ NRB

Source: SNV Nepal, 2008

Various service providers engaged in strengthening tea value chain are operating at different level and with results. Efforts to coordinate the roles of these actors for strengthening tea value chain are almost ineffective. For instance, potential of various financial service providers to meet the demand for financial services of various actors in tea value chain has not been acknowledged adequately in the absence of concrete efforts to mobilise their services for tea sector growth and development.

3.7 Socio Economic Impact

Ilam and Panchthar has predominantly rural population similar to other districts in Nepal and about 10,000 family units are involved in tea sector with more than 20,000 labour force, with a majority of workforce being women depending on employment and employment in this sector. From a gender perspective this is important although the work is in the lower categories, mainly as pluckers with lesser incomes. Nonetheless, it provides important additional income to families and empowering rural females. The tea farmer earns more income from their land than those involved growing other crops except some off-season vegetables like cabbage and cash crops like ginger. A recent study indicates that the tea farmer earns an average income of US$ 175 per month. The earnings are reportedly around US$ 20 per ha per month in these districts. The land use is better for tea as the undulating terrain and barren areas can be used due to the hardy and deep roots of the bushes, able to bind the soil and stop erosion. Government assistance by way of land allocation without restriction on size as well as lease agreements was available through ADBL. Loans at concessionary rates at 1.5% are possible for cultivation of land.

Distortion on tea farming is eminent due to indiscriminate and high use of pesticides and insecticides and incorrect application cycles. This was primarily due to low use of organic fertiliser and dampness of the atmosphere in hill districts of Ilam and Panchthar. This has caused the final product to contain more than the minimum level of residues permitted along with environmental damage and an imbalance in the insect population.

3.8 Code of Conduct

The orthodox tea grown in Ilam and Panchthar districts has a distinct image of its own. However, a huge chunk (almost 837 tons totaling 93% of the annual production) are sold in the international market as 'Darjeeling Tea' (GTZ, 2003). This way, the farmers do not receive good prices for their farm products and the distinct identity of Nepali orthodox tea is lost in the process. Even though the international demand for orthodox tea is increasing over time, due to constraints in quality and market access among others, Nepali small-holder tea farmers including labourers are not being able to reap much benefit from orthodox tea industry. Apart from that the farming system is still considered to be traditional where tea farming is done in a vacuum of information on appropriate modern farming techniques. Banned chemical fertilizers and pesticides continue to be applied on tea plants, because of which the production (yield) has increased but the demand from the conscious European buyers have heavily decreased citing the presence of residues of banned pesticides in Nepalese tea.

HOTPA (2006) has identified three major constraints of the growth and development of orthodox tea sector in Nepal.

- Non-compliance of international standards in producing quality oriented product,
- Problems in accessing the international market, and
- lack of competitiveness of Nepali tea amongst other tea brands in the global market.

Majority of the farmers are still practicing traditional farming technology and due to absence of modern technical knowledge, the quality of the green leaf is poor leading to unsatisfactory quality of finished product. Most of the pesticides being used by the farmers are already banned in buyer countries. Due to the lack of awareness of international rules and regulations on food and beverage items, this could prove to be a big hurdle in exporting Nepali tea to the global markets.

To overcome these constraints, a Tea Development Alliance has been formed which aims to develop tea sub sector to eventually contribute towards increasing the incomes of the small-holder farmers. The Alliance works towards improving the quality of the tea and providing a premium price on the tea by selling it at the international markets by gradually addressing the three major constraints mentioned above. In line with this, the Himalayan Orthodox Tea Producer's Association (HOTPA) developed the Code of Conduct (CoC) which is considered as a directive generated from the mutual agreement between the tea producers and the processors. The main objective of the COC is to 'make the quality of the Nepalese orthodox tea up to par with the international standards and the behavioral approach that producer, processor and all other parties affiliated in this profession will have to take to bring about necessary quality change' (HOTPA, 2006). The Tea Development Alliance has already initiated some work regarding CoC in the tea producing areas of Nepal and has started implementing the CoC standards in various tea processing factories and several tea green leaf producers groups. The CoC sets out a standard for the production, processing and marketing of Nepali orthodox tea with due consideration for environmental, social and economic aspects at different stages of the value chain (SNV, 2007).

Several smallholder farmers' groups and tea processing factories realized above constrainted and expressed their commitments to resolve these issues by involving themselves to the Code of Conduct (CoC) in orthodox tea program. The CoC was signed in 2006 and the implementation process has been initiated (AEC, 2007; SNV, 2007). In general CoC focuses on social responsibilities too for the community including ending of use of child labour; ending of caste and social discrimination; salary and wages payable based on labour laws of the country; women empowerment, child education and human development; clean and secured workplace; cultural development and information and recognition of corporate social responsibility by the factories. There are four pillars of CoC in orthodox tea.

Table 16: Four Pillars of CoC in Orthodox Tea in Nepal

Pillars	Requisite characteristics
Respect towards Nature	▪ Conservation of Bio Diversity ▪ Conservation & Management of Soil Fertility ▪ Environment friendly Agriculture System ▪ Implementation of National & International Environmental Policy
Human Respect	▪ End of Child Labor System ▪ End of Caste, Gender and Social discrimination ▪ Salary and wage prescribed by Labor Law and Rules ▪ Women Empowerment, Child Education & Human Development. ▪ Clean & secured work place ▪ Trader's social responsibility ▪ Cultural and Social Development
Respect towards Production System	▪ Implementation of National & International standard recognized production and processing process ▪ Transparency in production, processing process. ▪ Identifying the natural form of the products to the extent possible and maintaining integrity ▪ Record of each stages ▪ Monitoring ▪ Internal Inspection Process ▪ Provision of Product Recall System
Commitment to maintain High Standards	▪ Policy to maintain reliable and specific quality ▪ Clean & pure commercial practice ▪ Respect to the agreement with the Buyers ▪ Commitment to other related subject

Source: Extracted from paper on CoC

SNV Nepal as a member of the Tea Alliance is supporting the development of the supply side of the value chain. SNV's capacity building support will focus on successful implementation and coordination of the CoC program as this is a tool which ensures that benefits of the expansion of the tea sector reach to the weakest actors in tea value chain, the small holder farmers who have an average land of 1 hectare.

The CoC does not only imply standards for quality production and processing but also cover social and environmental standards. The social standards imply labour issues, gender, and social inclusion targets. The CoC intends to function as a marketing tool to brand Nepali tea in the international markets. In addition to this, the sector will leverage on its networks (e.g. FLO, GTZ, EU) and on other members of the alliance to identify market opportunities, to create market linkages and to do advocacy.

In the case of Orthodox Tea value chain, the pro-poor focus of SNV Nepal and other international and local farmer based organisations insist to ensure that the weakest actors in the chain will benefit of the development of the whole tea industry. About 20,000 small holder tea farmers with an average of 0.25 ha of land are producing 67% of total green leaf; this provides SNV Nepal and its clients with the opportunity to reach the poorest people in the tea industry. Through the implementation of a set of standards for quality production and social and environmental responsibility under CoC, small holder farmers are able to get a premium price of about 20% for their green leaf. The CoC serve as a tool to ensure that small tea farmers are benefiting out of the expansion of the tea industry.

Additionally, SNV Nepal is targeting landless people involved in the tea sector, often socially excluded groups (pluckers and labour) by developing separate projects to generate additional income and to empower them. As 80% of the pluckers are women, they will directly benefit of these target projects. Access to financial services to these groupsp will enable them to use their spare time on productive activities and address the under-employment problems associated with their employment in tea value chain.

3.9 Concluding Remarks

Tea is one of the agro-based cash crops with potentials to provide an increased income to all the actors involved in tea farming. As opposed to a production channel of Tea estates or private entrepreneurs having both farms and processing factories, the actors in supply chain of smallholder farmers category consists of farm labourers (unskilled and skilled), smallholder farmers, producers' groups, and processing factories.

Key actors in tea value chain consists of tea nursery, agro-traders, promotion of tea plantation, maintenance of tea orchard, plucking / supply of green leaves, tea producer's cooperatives, pluckers, hand processing, mini-processing, large processing, brokers / packers, wholesalers and exporters and these actors have varied needs and demand for financial services and this aspect is discussed in next section.

4. FINANCIAL SERVICES VIS-A-VIS FINANCIAL NEED IN TEA VALUE CHAIN

4.1 Capital Flow in the Tea Value Chain

Capital is one of factors of production to promote enterprises in tea sector. Various enterprises in tea sector are related to nursery management, plantation promotion, tea garden management, marketing of green tea leaves, households level processing, mini-processing, large processing, marketing (wholesale and retail) and transportation. Several focus group discussions were organized to estimates the amount of capital flow in tea value chain. The estimates on capital flow are provided in Table 17.

Table 17: Capital Flow in Tea Value Chain

Tea Value Chain	Key Actors/Activities	Capital Flow	
		Ilam	Panchthar
Input supply	Tea Nursery (Rs. '000 /ropani)	40	50
	Agro-traders (Rs. '000)	50	50
Production/cultivation	Promotion of tea plantation (Rs. '000 /ropani)	20	25
	Maintenance of tea orchard (Rs. '000 /ropani)	2	3
Raw materials supply	Plucking/supply of green leaves (Rs. '000 /ropani)	2.5	2.8
	Tea producer's cooperatives (Rs. '000/year)	500	500
	Pluckers (Rs. '000/year)	20	20
Processing	Hand processing (Rs. '000)	100	100
	Mini-processing (Rs. '000)	1,200	1,500
	Large processing (Rs. '000)	40,000	45,000
Wholesale/Retail	Brokers/Packers (Rs. '000)	2,500	2,500
	Wholesalers (Rs. '000)	2,000	2,000
	Exporters (Rs. '000)	5,000	5,000
Transportation	Transporters	-	-

Source: Focus Group Discussion, October 2008 and Updated from Financing Norms of ADBL

The information provided in above Table indicates that some of the enterprises such as establishment of large processing facilities, wholesale/retail trade in the tea value chain are highly capital intensive. The capital flow is estimated to range between Rs. 2-3 thousand and Rs. 45.0 million. On the absence of assured access to finance, various activities and enterprises at the tea value chain have not flourish well.

4.2 Financial Need Analysis in Every Layer of Tea Value Chain

4.2.1. Financial Need in Tea Value Chain

Tea entrepreneurs requires access to finance to purchase labour inputs, raw materials, acquiring business counseling services, technical advice and marketing management. Areas of financial need in the tea value chain are presented in Table 18.

Table 18: Financial Need in Tea Value Chain

Tea Value Chain	**Key Actors/Activities**	**Financial Need**
Input supply	Tea Nursery	Labour cost, polythene tube, bamboo, seedling cuttings, tools and equipments, pesticide, organic manure and chemical fertilizer, etc.
	Agro-traders	Organic and inorganic pesticide, manure and fertilizer, agricultural tools and equipments, etc.
Production/cultivation	Promotion of tea plantation	Labour cost, seedlings, organic and inorganic manure/pesticide, tools and equipments
	Maintenance of tea orchard	Labour for manuring, inter-culture operation, pruning and skiffing, etc. and tools/equipments for pruning, skiffing and other farm related activities

Tea Value Chain	Key Actors/Activities	Financial Need
Raw materials supply	Plucking/supply of green leaves	Skilled labour on tea plucking, weighing and transport management
	Tea producer's cooperatives	Procurement and supply arrangements for green tea leaves
	Pluckers	Income generating activities during off-season and time of under-employment.
Processing	Hand processing	Small dryer of the capacity of drying 30 kg per day, packaging materials, labour cost and marketing arrangements
	Mini-processing	Complete set of processing unit (withering trough, rolling machine, fermentation device, dryer, sorting/grading machine, packaging) to a capacity of processing 300-400 kg per day, packaging materials, labour cost and marketing arrangements, certification, etc.
	Large processing	Complete set of large processing unit, direct and indirect labour cost and marketing arrangements, certification, etc.
Wholesale/Retail	Brokers/Packers	Stock management and packaging, packaging materials and packaging machine
	Wholesalers	Stock and supply management
	Exporters	Stock and supply management, shipment, receipt and payment management,
Transportation	Transport companies	Transportation of green leaves to the factory and made tea from the factory for distribution and sale,

Source: Field Survey, October 2008

The information provided in above table indicates that there is enormous financial need in the tea value chain. There is a need to meet financial need of each actor in the tea value chain by establishing the linkages with FSPs for access to financial services at reasonable rate.

4.2.2. Market for Financial Services

Tea sector is one of the complex sectors encompassing various types of actors with diverse demand for financial services. Further, there is lack of FSPs that exclusively finances to meet the financial needs of these actors/activities in the Tea value chain.

Demand of financial services

Demand for financial services is huge if loan products are appropriately designed and delivered. The demand for credit for different actor in the tea value chain is estimated at Rs. 2532.54 millions for Ilam and Panchthar districts and a total of 18,456 people is estimated to benefit out of the financial services.

Table 19: Demand for Financial Services in Tea Value Chain

Tea Value Chain	Key Actors / Activities	Benefi-ciaries	Demand for Credit (Rs. '000)					
			Ilam			Panchthar		
			Rate per unit	Quantity	Amount	Rate per unit	Quantity	Amount
Input supply	Tea Nursery (Rs. '000 /ropani)	100	30	50	1,500	30	50	1,500

Tea Value Chain	Key Actors / Activities	Benefi-ciaries	Demand for Credit (Rs. '000)					
			Ilam			Panchthar		
			Rate per unit	Quantity	Amount	Rate per unit	Quantity	Amount
	Agro-traders (Rs. '000)	22	50	12	600	50	10	500
Production / cultivation	Promotion of tea plantation (Rs. '000 /ropani)	1800	8	7,000	56,000	8	7,000	56,000
	Maintenance of tea orchard (Rs. '000 /ropani)	5,742	2	96,320	192,640	2	10,460	20,920
Raw materials supply	Plucking/supply of green leaves (Rs. '000 /ropani)	5,742	2	103,320	206,640	2	17,460	34,920
	Tea producer's cooperatives (Rs. '000/year)	50	500	35	17,500	500	15	7,500
	Pluckers (Rs. '000/year)	9,649	20	7,926	158,518	20	1,339	26,788
Processing	Hand processing (Rs. '000)	450	50	350	17,500	50	100	5,000
	Mini-processing (Rs. '000)	35	1,200	25	30,000	1,200	10	12,000
	Large processing (Rs. '000)	14	40,000	10	400,000	40,000	4	160,000
Wholesale/Retail	Brokers/Packers (Rs. '000)	23	2,500	15	37,500	2,500	8	20,000
	Wholesalers (Rs. '000)	15	2,000	10	20,000	2,000	5	10,000
	Transporters (Rs. '000)	0	-	-	-	-	-	-
	Exporters (Rs. '000)	10	5,000	5	25,000	5,000	5	25,000
Transportation	Transporters (Rs. '000)	-	-	-	-	-	-	-
Total		17,910			1,163,398			380,128

Source: Consultant's estimates based on focus group discussion in October 2008.

Besides credit, various actors in tea value chain needs other financial services such as savings/deposits, insurance, and remittance/money transfer. Any strategy to address the access to (micro) financial services to various actors in tea value chain must address the demand for other financial services as well.

Supply of Financial Services

Suppliers of financial services includes nine branches of six CBs, one branch of one DB, three branches of MDB (SBB), four branches of one FI-NGOs (FORWARD), 50 SCCs, 3 SFCLs, 90 MPCs and 30 TPCs.

Mostly these FSPs provide savings/deposits and loan services for their clients. In general, CBs and DB provide loan services, cooperatives (SCCs, SFCLs, MPCs and TPCs) provide savings and loan services and that of MDB and FI-NGO provides savings, loan and micro-insurance services. In general cooperatives provides financial services to their share holders (i.e. their members) and they are member based and operated while other FSPs provide financial services to different actors in the Tea value chain under clients and owner relationship. The financial services (loan) provided by FSPs to various actors in the tea value chain is estimated Rs. 291.6 million (Table 20).

Table 20: Financial Services (Loan) Provided by Financial Service Providers in Ilam and Panchthar Districts

Financial Service Providers	Ilam		Panchthar	
	Branches / Unit	Loan transaction (Rs. '000)	Branches / Unit	Loan transaction (Rs. '000)
Commercial Banks (No)	7	128,154	2	33,221
Development Bank (No)	1	2,500	-	-
Microfinance Development Bank (No)	2	26,285	1	3,500
Financial Intermediary NGOs (No)	2	23,275	2	9,141
Savings and Credit Cooperatives (No)	40	16,000	10	3,000
Small Farmers' Cooperatives Ltd. (No)	3	10,079	-	-
Multipurpose Cooperatives (No)	54	21,600	36	9,141
Tea Producer's Cooperatives (No)	27	5,400	3	300
Total		233,293		58,303

Source: Field survey, October 2008

Most of the financial (loan) services in the tea value chain of these districts are provided by CBs and this is followed by FI-NGOs and MDBs. Despite huge number, role of cooperatives to enhance access to financial services to the tea value chain is still low.

4.2.3. Environment Analysis

Financial service providers (FSPs) assess the environment (market, infrastructure, client characteristics, risk, etc.) of the areas where they will operate to gauge how foreseeable external challenges affects their capacity to achieve goals of operating at viable level. External factors can be either opportunities or threats[20]. By anticipating the effect of external factors, the FSPs can better position themselves to take advantage of its environment. In doing environmental analysis FSPs look at four factors viz. competition, collaborators, regulatory factors and other external elements.

Competition
Financial service providers (FSPs) choose to carry-out a careful review of its current and potential competitors, including other FSPs, moneylenders, informal credit schemes, clients' suppliers and other financial institutions. Competition on financial market has been increasing significantly in Ilam district with the opening of branch offices of different commercial banks and development banks while it is still less competitive in Panchthar district.

Collaborators
The kinds of collaboration that a financial institution forms depend on their needs. In order to establish a broad-based institutional strengthening, an affiliation with a larger national network providing technical assistance, training and access to wholesale fund is an important relationship. Further, a typical FSP can collaborate with savings and credit groups and/or cooperatives to expand the financial services in remote areas that may reduce its transaction cost of service delivery. A FSP might also collaborate with local government officials or with local institutions providing non-financial services in order to complement and enhance the repayment capacity of their clients for eventual effiicency of their clients.

Regulatory Factors
Regulatory policies can play an important part in shaping a FSP's environment. FSPs should operate under the Bank and Financial Institutions Act 2006, Cooperative Act 1991 and Act for NGOs involved in Financial Intermediation 1998.

[20]Opportunities if the service providers can position themselves to take advantage of changes in the environment, threats if the changes jeopardize its ability to pursue its goals in the way it had planned.

Bank and Financial Institutions Act 2006 aims to protect and safeguard rights of depositors by enhancing credibility of all banking and financial systems; provide quality and reliable banking and financial intermediary services to people through healthy competition among banks and finance institutions; lessen risks in banking and financial sectors; strengthen the economy through liberalization of banking and financial sectors; and amend and regulate current laws related to entry, operation and exit of bank and financial institutions while completely subsiding NRB Ordinance for Bank and Financial Institution 2003 promulgated on 31 January 2005 by dismissing Finance Company Act 1985 and Development Bank Act 1996. The act provisioned all financial institutions to operate under it.

NRB sets out rules and regulations for entry, operation and exit of financial institutions. In the past, it imposed priority sector lending to CBs to ensure flow of institutional credit to rural sector that obliged them to lend directly to individuals or self-help groups or provide wholesale fund or equity to MSPs. NRB has phase out its priority sector credit policy in 2007 while withholding 3% investment in deprived sector.

Chapter 6, Clause 26 (2) of Cooperative Act 1992 has provisioned the engagement of cooperative in other banking business including accepting small savings, supplying loans to members and issuing checks. Cooperative has to obtain license from NRB to engage in such banking activities. They should have paid-up capital between NRs. 1-10 million depending on access and their core area of operation.

NRB introduced Act for NGOs involved in Financial Intermediation 1998 to bring the microfinance activities of the NGO under the prudential regulation and supervision. The act enables NGOs to be part of the Nepalese financial sector and its first amendment in 2002 allows FI-NGOs to accept savings deposit from their clients.

Other External Elements

General economic and political conditions have a significant effect on the informal financial sector as well as FSPs and their clients. A high inflation rate, civil unrest and natural disasters can pose serious threats to FSP's while a stable economic and political situation provides a positive environment for an institution's development. Other significant external elements include foreign exchange rates, currency convertibility, national poverty levels, and transportation and communication infrastructure. In general, other external elements are quite favorable in Ilam and Panchthar districts.

4.3 Gaps between Financial Service Providers and Users

A comparision of the demand for financial services (loan) by key actors in the tea value chain and the estimates on supply of financial services (loan) by different FSPs indicates that there is significant un-met demand for financial services in Ilam and Panchthar districts. In contrast, significant portion of loan disbursed by FSPs like ADBL on tea sector as well as RBB and NBL on priority (agriculture, industry and service) sector is overdue owing to lack of willingness of the borrowers to pay back the loans disbursed and owing to decade long conflict.

Table 21: Gaps between Demand for and Supply of Financial Services (Loan) on Tea Sector in Ilam and Panchthar Districts

S.N.	Particulars	No of clients	Ilam	Panchthar	Total
1	Demand for financial (loan) services (Rs. '000)	17910	1,163,398	380,128	1,543,526
2	Supply of financial (loan) services (Rs. '000)	6,590	233,293	58,303	291,596
3	Gaps	11,320	930,105	321,825	1,251,930

Source: Table 20 and 21

The information presented in Table 21 indicates that there are still 11,320 clients unserved by FSPs that still requires access to financial services and there is a significant

gap on demand and supply of financial services (loan) in these districts. The gap for access to loan services is estimated at Rs. 930.105 million in Ilam district and Rs. 321.825 in Panchthar districts. Though in absolute term the gap is high in Ilam but the gap is more in Panchthar district in relative term. Further, access of financial services is concentrated in accessible areas i.e. along the road corridors and virtually no or limited access in inaccessible areas.

4.4 Financial Sector and Tea Sector vis-a-vis Access to Financial Services

Financial sector is relatively well developed in Ilam and Panchthar districts where all categories of FSPs operate. Consultations with FSPs (both commercial and community based) in these districts revealed that expansion of financial services to a large number of un-served and under-served actors in the tea value chain living in remote areas of these districts is yet a challenge. While commercial microfinance service providers are quite successful to penetrate their services in urban and densely populated peri-urban areas of these districts, the community based MSPs have comparatively better penetration in relatively inaccessible areas albeit relatively selective on lending to different actors in the tea value chain. On the other hand, over 1300 Savings and Credit Groups (SCGs) promoted by government and non-government sectors exist both in accessible and inaccessible areas of these districts however, like in other districts of Nepal, potentials of these SCGs are not fully used in these districts. Table 22 provides information on key characteristics of loan products for different actors in the tea value chains in these districts.

Table 22: Key Characteristics of Loan Products for Different Actors in the Tea Value Chains in Ilam and Panchthar Districts

Tea Value Chain	Key Actors / Activities	Loan type	Loan Term (year)	Loan Installment	Grace period[21] (year)	Loan Size (Rs. '000)	Collateral	Total benefici-aries
Input supply	Tea Nursery	Working capital	1	Semi-annual	0	50	Physical	100
	Agro-traders	Working capital	1	Monthly	0	50	Physical	22
Production / cultivation	Promotion of tea plantation	Investment and working capital	7-10	Seasonal based on cash flow	3	25	Physical	1800
	Maintenance of tea orchard	Working capital	1	Seasonal based on cash flow	0	3	Social	5,742
Raw materials supply	Plucking / supply of green leaves	Working capital	1	Seasonal based on cash flow	0	2.8	Social	5,742
	Tea producer's cooperatives	Working capital	1	Seasonal based on cash flow	0	500	Physical	50
	Pluckers	Investment and working capital	1	Monthly	0	20	Social	9,649
Processing	Hand processing	Investment and working capital	5	Semi-annual	1	100	Physical	450
	Mini-processing	Investment and working capital	7	Semi-annual	1	1,500	Physical	35

[21]Grace period basically relates to gestation period and time required before the loan repayment (principle and interest) should start based on cash flow and capacity to pay of the clients.

Tea Value Chain	Key Actors / Activities	Loan type	Loan Term (year)	Loan Installment	Grace period[21] (year)	Loan Size (Rs. '000)	Collateral	Total benefici-aries
	Large processing	Investment and working capital	9	Semi-annual	1	45,000	Physical	14
Wholesale/Retail	Brokers / Packers	Working capital	1	Quarterly	0	2,500	Physical	23
	Wholesalers	Working capital	1	Quarterly	0	2,000	Physical	15
	Transporters	Investment and working capital	-	-	-	-	-	0
	Exporters	Working capital	1	Quarterly	0	5,000	Physical	10

Source: Field Survey, October 2008

Demand for financial services varies across different actors in the tea value chain and key characteristics of the loan products such as loan type, loan term, loan installments, grace period, loan size and collateral differs across actors. While some actors requires working capital loan, other requires both investment and working capital loans. Likewise, while the term for working capital loan need not be for more than one year, loan term for loan for fixed investment should range between 5 to 10 years. Loan can be recovered using four different types of loan installments: monthly, quarterly, semi-annual and seasonal based on cash flow of the activities in the value chain.

As a matter of fact, FSPs discourage grace period on loan repayment based on the notion of household cash flow rather than enterprise cash flow. Nevertheless activities like new plantation requires three year of grace period while processing of all types requires one year grace period during installation phase. Loan size per unit varies greatly which ranges between Rs. 2,800 and Rs. 45,000,000. While social collateral could be used for small size loan, loans of larger size exceeding Rs. 50,000 must be backed by physical collateral.

The product diversification by FSPs is one of the critical requisite in order to ensure access to financial services to different actors in the tea value chain. Most FSPs in Ilam and Panchthar districts have a tendency to work with mono-product and such attitude does not meet diverse financial needs of different actors in the tea value chain. Further, neither microfinance nor investment finance alone meet the need of these actors. There should be proper blending of microfinance and investment finance as well as fixed investment and working capital loans.

4.5 Assessment of Possible Interventions

On the basis of their financial needs as well as analysis of the key characteristics of loan products the various actors in tea value chain has been classified into three such as those requiring financial services to meet (i) working capital, (ii) fixed investment and (iii) both fixed investment and working capital. Further based on size of the loan required for financing investment and working capital, their financial needs can be classified into three: small size loan (< Rs. 50,000), medium sized loan (Rs. 50,000 - Rs. 300,000) and large sized loan (> Rs. 300,000).

The context and realities related to the provision of financial services to the key actors in the tea value chain indicates that some actors in the tea value chain require financial services in the form of microfinance, other requires micro and small enterprise finance and other requires medium and large enterprise finance. There are financial service

providers in Ilam and Panchthar districts that have provided all three types of financial services to the key actors in the tea value chain since early 1980s.

Table 23: Categorizing Loan Products for Different Actors in Tea Value Chains in Ilam and Panchthar Districts

Financial Need	Key Actors / Activities			Financing type and Gaps on demand
	Working capital loan	Fixed Investment	Fixed Investment and Working capital loan	
Small size (< Rs. 50,000)	▪ Tea Nursery ▪ Agro-traders ▪ Maintenance of tea orchard (< 20 ropani) ▪ Plucking / supply of green leaves (< 25 ropani)		▪ Pluckers ▪ Promotion of tea plantation (< 3 ropani)	Microfinance **Gaps:** Rs. 131.08 million
Medium Size (Rs. 50,000 - Rs. 300,000)	▪ Maintenance of tea orchard (20 - 100 ropani) ▪ Plucking / supply of green leaves (25-150 ropani)	▪ Hand processing plants	▪ Promotion of tea plantation (3-12 ropani) ▪ Purchase of green leaves for processing (case of mini-processing unit)	micro and small enterprise finance **Gaps:** Rs. 498.81 million
Large size (> Rs. 300,000)	▪ Maintenance of tea orchard (> 100 ropani) ▪ Plucking / supply of green leaves (> 150 ropani) ▪ Tea producer's cooperatives ▪ Brokers/Packers ▪ Wholesalers ▪ Exporters	▪ Mini-processing units ▪ Large processing units	▪ Promotion of tea plantation (> 12 ropani) ▪ Purchase of green leaves for processing (case of large processing unit)	Medium and large enterprise finance **Gaps:** Rs. 622.03 million

Source: Field Survey, October 2008

Based on the current demand of the key actors in the tea value chain and current supply from the FSPs, gaps on different financing needs and categories has been calculated. Such gaps has been estimated at Rs. 131.08 million in microfinance, Rs. 498.81 million in micro and small enterprise finance and Rs. 622.03 million in medium and large enterprise finance. This implies that all the FSPs should be mobilized in order to meet the financial needs of key actors in the tea value chain. There is however barriers to mobilise the services of existing FSPs to enhance access to finance to key actors in the tea value chain in these districts. Some of these barriers are outlined hereunder.

- Services of commercial FSPs are concentrated along road corridors and accessible areas while community based FSPs are working in relatively interior (remote) parts of these districts. Thus, there is a need to use all existing FSPs to provide access to financial services to key actors in the tea value chain.
- Some commercial FSPs like ADBL, NBL and RBB have bitter experiences on providing financial services to some actors in the tea value chain owing to poor portfolio quality due to lack of willingness of their clients to pay-back the loans and knock the door of the government for waiver of accumulated interest due in most cases and even for principle amount in some cases.
- Announcement by the government to waive out loan provided by the ADBL and SKBL on small sector upto loan size less than Rs. 30,000.
- Existing service delivery cost structure (high cost, intensive supervision requirements) is the barrier to commercial FSPs to expand their services in remote

areas; while such impediment either does not exist or are at minimum among community based FSPs.

- There is lack of innovations to reduce operating cost, as one of the pre-requisites to expand financial services of existing FSPs in inaccessible areas of both districts.
- Products and service delivery methodologies deter commercial FSPs to expand their services in inaccessible areas while capacity and resource constraints undermine potential of community based FSPs to intensify their services in their working areas and expand their emergence and growth in more remote areas.
- Business linkages of commercial FSPs with large number of informal SCGs that even exist in inaccessible areas as well as partnership of apex institutions with community based FSPs on capacity enhancement and access to loanable fund is most effective and efficient alternatives to expand microfinance services in these areas. Such an effort will be instrumental to promoting inclusive financial services in these districts.

Box 4: Liquidity and Delinquency Management requires Proper Loan Product Design and Service Delivery Mechanism

Pathivara Multipurpose Cooperative is one of the MPCs in Ilam district based in Kolbung VDC ward number 2. It has 402 shareholders and total savings mobilisation of Rs. 7.1 million with share capital of Rs. 2.1 million. It has a outstanding loan balance is Rs. 6.69 million. It provides various types of savings products such as child savings, voluntary savings, regular savings, and fixed deposits and interest rate provided by this cooperatives on various types of savings products ranges between 6.75% and 8.5%. Interest rate charged on loans ranges between 12 and 24%. On-time loan repayment rate is less than 85% and cumulative overdue amount is Rs. 1.12 million. Capital mobilisation rate is less than 60%. They are covering operating expenses from operating income and making an operative profit of Rs. 0.580 million in 2007/08.

This cooperative is managed by a team that consists of a manager and a deputy manager under the leadership of committed board of directors. They have experienced the problem on liquidity and delinquency management. Over 90% shareholders are tea farmers who also have few heads of cattle for milk production. Due to lack of proper loan product design and proper service delivery mechanism, the cooperative is facing problems on liquidity and delinquency management. This implies that proper loan product design and proven service delivery mechanism are pre-requisites for liquidity and delinquency management.

In view of capital intensive nature of tea industry, access to finance is one of the pre-requisite for financing its growth and development. Any government and non-government organization working in tea sector must collaborate with all types of FSPs that exist in these districts as each of them have comparative advantage to enhance access to finance for different actors in the tea value chain rather than bringing FSPs from outside. Possible interventions for each type of FSPs to provide access to finance to key actors in the tea value chain should focus on improving efficiency and effectiveness on operational modalities through packages of interventions encompassing capacity building, technical backstopping support on new product design, support to exposure visits, etc. Involvement of FSPs that are currently working in these districts have comparative advantages of enhancing access to finance to key actors in the tea value chain in time and cost effective manner. Start-up cost will be low and they are experienced to complexities involved on lending to some of the actors on the tea value chain and are familiar with geographical areas. These interventions will enable FSPs to extend financial support to different actors in the tea value chain which are linked each other. Thus, such interventions will be instrumental to ensure a more balanced growth and development of the tea sector in these districts.

Table 24: Involvement and Possible Interventions of FSPs to provide Access to Finance to Key Actors in Tea Value Chain in Ilam and Panchthar Districts

S.N.	Type of FSPs	Involvement	Interventions Required	Time Frame (years)
1	Commercial Banks	Medium and large enterprise	▪ Partnership at centre level ▪ Support to improve portfolio quality, ▪ Support to provide investment proposals ▪ Promotion of linkage banking among SCGs	2
2	Development Bank	Micro, small and medium enterprise	▪ Partnership at centre level ▪ Support to improve portfolio quality, ▪ Support to provide investment proposals ▪ Promotion of linkage banking among SCGs	2
3	Microfinance Development Bank	Microfinance	▪ Skill training to clients ▪ Linkages of the clients with MDB branch	2
4	Financial Intermediary NGOs	Microfinance	▪ Skill training to clients ▪ Linkages of the clients with MDB branch	2
5	Savings and Credit Cooperatives	Microfinance and micro-enterprise	▪ Training on book keeping, accounting, financial management and loan management ▪ Capacity building on cooperative management ▪ Linkages with apex institutions (wholesale loan providers)	3
6	Small Farmers' Cooperatives Ltd.	Microfinance and micro-enterprise	▪ Capacity building on cooperative management ▪ Support to improve portfolio quality,	2
7	Multipurpose Cooperatives	Microfinance and micro-enterprise	▪ Training on book keeping, accounting, financial management and loan management ▪ Capacity building on cooperative management ▪ Linkages with apex institutions (wholesale loan providers).	3
8	Tea Producer's Cooperatives	Microfinance, micro and small enterprise	▪ Training on book keeping, accounting, financial management and loan management ▪ Capacity building on cooperative management ▪ Linkages with apex institutions (wholesale loan providers)	3

Except cooperatives, all other types of FSPs are operating at commercially viable level. Most of the cooperatives have to go a long process to operate at the commercial viability level due to small size of operation (less number share-holders), weak governance, lack of capacity for promotion and management, poor book keeping and accounting, financial management and cooperatives and operational risk management system. (can you provide some reasons why these cooperatives are not geared towards financial viability?). Other FSPs (FI-NGO, MDB, DB and CBs) are recovering their cost from their operation. The political climate is affecting seriously in their operation as evident by announcement of scheme to waive out small loans (< Rs. 30,000) disbursed by ADBL under regular programme and loans disbursed under priority sector lending from NBL and RBB.

5. STRATEGY FOR INCREASING ACCESS TO FINANCIAL SERVICES FOR VARIOUS LAYERS IN THE VALUE CHAIN

5.1 Vision, Mission, Goal and Purpose

The vision, mission, goal and purpose[22] of the strategy to increase access to financial services to various layers in the Tea value chain in Ilam and Panchthar districts are the following.

Vision: Local economic development through broad based economic growth in tea sector for tea farmers. (whose vision, mission, goal and objective are these?). Is this agreed by the Orthodox tea sub sector's actors or Is this the study team's or is this SNV's?

Mission: Support to strengthen the tea value chain in Ilam and Panchthar districts.

Goal: Increase access to financial (savings, loan, insurance, money transfer, remittance and leasing) services to different actors in tea value chain.

Purpose: The purposes of this strategy are to:
- Address the financial needs of different actors in every layer of tea value chain,
- Meet the gaps between current capacity of FSPs and potential demand of the users,
- Assess the possible interventions along with the implications in the value chain, effectiveness, commercial viability and feasibility.

5.2 Current status of Financial Service Providers

Evaluation of the current status of the FSPs in Ilam and Panchthar districts reveals that there exist both positive and negative aspects of the FSPs as far as their internal and external environment is concerned. There is a need to capitalize the strengths and use the opportunities while minimizing the weaknesses and facing the threats.

Table 25: Evaluation of Current Status of Financial Services Providers in Ilam and Panchthar Districts

SWOT	Positive	Negative
Internal	Strengths: ▪ Expansion on the networks of FSPs. ▪ Greater understanding on role of access to finance on strengthening different layers in tea value chain. ▪ Enormous business volume on meeting the demand for financial services on different layers in tea value chain.	Weaknesses: ▪ FSPs services concentrated along road corridors and accessible areas and with limited presence in inaccessible areas of the districts. ▪ Credit facility is collateral oriented. ▪ Differential loan terms for lending across FSPs. ▪ Lack of specialised FSPs to finance in Tea sector. ▪ Poor portfolio quality on tea sector loan.
External / Context	Opportunities: ▪ Increased interest of CBs, DBs, MDBs, FI-NGOs and Cooperatives to expand financial services on different layer of tea value chain. ▪ Huge demand for financial services in various layers of tea value chain. ▪ Favorable legal and regulatory framework. ▪ New product design and product diversification. ▪ Shrinking operating space in Tarai for FSPs.	Threats: ▪ Government's attitude towards FSPs. ▪ Government's controversial policy to waiver of the loans extended on priority sector including tea.

Source: Field Survey, October 2008

[22]These are the vision, mission, goal and purposes proposed by the study team.

Box 5: Weak Governance and Availability of Grant: Counterproductive for the Growth and Development of Cooperative

Grammen Mahila Savings and Credit Cooperatives is one of the cooperatives promoted by Rural Reconstruction Nepal (RRN) in Panchami VDC of Panchthar district. It is located in ward number 1 Gopetar of Panchami VDC. This SCC has total shareholders of 73 and has mobilized savings at the rate of Rs. 5 per month per shareholder. All shareholders are women. Board of Directors of this cooperatives lack technical capacity to maintain the books of accounts and records of their transaction, hence, has not maintained the records of all its transaction consistent to the requirements of the cooperative acts and rules. Governance system is weak and board of directors lack understanding on their role. Other sub-committee on account, loan, education and audit are simply on paper and they are not fully aware of their responsibility and even lack capacity to perform their envisaged responsibilities for their cooperative development. They have received loanable fund of Rs. 89,000 from RRN as grant and they are expecting some more grant to come-forward rather them building their capacity and increasing savings mobilisation rate. The loan mobilized by this cooperative is overdue and portfolio at risk is over 55%. This is partly due to cold money coming in the cooperatives and hot money constituting a very small portion of their loanable fund. There is lack of strong leadership and proper strategic direction and indicates that weak governance and availability of grant is counterproductive for the growth and development of cooperative.

Box 6: Committed and Visionary Leadership Supports the Emergence of Sustainable Institution

Deurali Multi-purpose Cooperatives Ltd. is one of the MPCs in Panchthar district based in Jorsal of Phidim municipality. Its working areas include five VDCs: Phidim, Bharapa, Chokmagu, Lungruppa and Ranigoun. It is one of the successfully operated cooperative in Panchthar district. It has total shareholders of 800. Its total annual transaction in 2007/08 is Rs. 4.94 million and outstanding loan balance is Rs. 4.556 million. Besides serving its shareholders, this MPC has extended microfinance services to poor households nearby using Grameen system of lending.

Mrs. Urmila Shrestha, Chairperson and Ms. Goma Pokhrel, Microfinance Assistant participated in the pre-group trainer's training facilitated by LOTUS Opportunities in Dhankuta in partnership with SOLVE Nepal between 7 and 13 November, 2006 with the objectives to build the capacity of the cooperatives to be able to conduct the Pre Group Training (PGT) by the Filed staffs (MF-Assistant) in their working area to groups and to orient them on overall process of microfinance operation. Inspired by the observation of SOLVE's operation in Dhankuta district, they have designed and implemented the microfinance programme in their working areas. They have received wholesale loan from RSRF for microfinance and Biogas Credit Unit of AEPC to provide institutional credit to promote biogas in their working areas. It has external loan outstanding of Rs. 0.468 million. On-time loan repayment rate is 100%. It's operational expenses has been covered by operating income and currently operating in profit.

Deurali Multi-purpose Cooperatives Ltd. is the ideal example demonstrating that committed and visionary leadership supports the emergence of sustainable institutions. This cooperative can be used as a learning centre to develop many other viable cooperatives in the district.

5.3 Strategies on Access to (Micro) Finance for the Tea Sector

Access to (micro) finance should be understood as one of the important elements for enterprise development. It should be considered to be one of the business development services required for emergence, growth and development of the enterprise. Focus should be on identifying how best existing resources could be used rather then creating new structure.

In general, strategies to ensure access to (micro) finance for various layers of the tea value chain in Ilam and Panchthar districts are not straightforward. Such strategies should focus on using all existing FSPs that have potential to provide financial services to different layers in the tea value chain based on their comparative advantages. Role of community based FSPs (i.e. cooperatives), MDBs and FI-NGOs to extend microfinance services and microenterprise loan mainly to meet the demand for working capital and small fixed investment capital in appropriate layer of the tea value chain should be accounted with; while the role of CBs and DBs to extend small, medium and large enterprise loan by meeting both the demand for fixed investment and working capital must be acknowledged. In cognizance to this reality, the strategies on access to (micro) finance for the tea sector could be as under.

Strengthening the Community Based FSPs:
The 173 cooperatives (124 in Ilam and 49 in Panchthar) are at diverse capacity and their capacity need to be strengthened in order to use them upto a full potentials. It should be noted that there are some cooperatives with potentials to operate at commercially viable level and any future support to strengthen the capacity of the cooperatives must be based on through assessment and ratings of the these cooperatives and only those cooperatives meeting the minimum eligibility requirements on membership, portfolio quality, capital mobilisation rate and governance system. (In Page you said "Except cooperatives, all other types of FSPs are operating at commercially viable level. A lot is yet to be done to assist cooperatives to attain the commercial viability' If this is the case then can we work with them to fulfill the massive unmeet demand. Is not it too risky for the tea sub sector working with those institutions which are not commercially viable?) In both districts there are many small cooperatives rather than few large cooperatives. Farmers' cooperatives federation in Ilam can provide technical advice and can act as local capacity builder to these cooperatives. Most of these cooperatives have comparative advantages to extend access to finance in inaccessible areas that are located to the interior part of road corridor. They need to be oriented on expanding financial services in different layers of the tea value chain. These cooperatives possess potentials of meeting microfinance and microenterprise finance (both working capital and fixed investment) in various layers of tea value chain. This strategy is linked with (i) advisory services and (ii) local capacity building theme of SNV's delivery channel.

Box 7: Innovative Effort to Strengthen Cooperatives

Mahila Jagaran Manch (MJM) Ilam, a local NGO based in Ilam municipality and established in early 90s has a programme to strengthen cooperatives involved on savings mobilisation and loan management under the financial support of the Development Fund of the Norwegian government. The cooperatives assisted by them include the SCCs, SFCLs and MPCs and currently working with 108 such cooperatives. They have however excluded the TPCs. To start with, MJM has completed an institutional audit of these cooperatives using criteria such as outreach, service delivery, governance, accounting and financial management, portfolio quality and linkage and networking and ranked. MJM has categories these cooperatives into three categories based on there performance and score they received on audit process. The institutional audit findings categories the 21 cooperatives as rank A, 68 as rank B and 19 as rank C and prepared capacity building plan based on their current status, SWOT analysis findings and ranking status. They have identified cooperative education, book keeping and accounting, financial management, amalgamation, PEARLS monitoring as key areas of support to these cooperatives in order to improve their current status and increase professionalism on operation. It has planned to upgrade the status of all 108 cooperatives at rank A. Initiatives started by MJM is quite innovative to strengthen the cooperatives in Ilam districts. MJM's initiatives in Ilam district could be replicated in Panchthar district as well to strengthen the cooperatives. This approach could also be extended among TPCs in order to strengthen their capacity in both districts.

Supporting to Promote Community Based Banking:
1,375 SCGs promoted under different rural development programmes has potential to meet microfinance and microenterprise finance (both working capital and fixed investment) in various layers of the tea value chain. These SCGs are invaluable resources for local economic development through their involvement on SHCC. Possibilities of linking these SCGs with FSPs by promoting community based banking need to be explored. Operationalisation of this strategy encompasses two key initiatives: strengthening the existing SCGs and linking capable SCGs with FSPs. Most SCGs are very weak and they lack written code of conduct of group operation, saving policy, loan policy and portfolio tracking system that are required for compliance monitoring. All SCGs mobilize savings and use accumulated savings for loan operation among their members. Involvement of the SCGs in these programmes ranges between 2 and 10 years with the amount of savings mobilized ranging Rs. 20,000 and Rs. 1,000,000 per SCGs. Irrespective of amount of financial resources managed; most of these groups still maintain their books of accounts under single entry system. These groups still lack documented operational policy; hence, loan operation is characterized by subjectivism. SCGs strengthening and linkage strategy should focus on up-grading of current status of these groups towards their empowerment and ensuring that each SCGs possess a documented operational policy, transparent decision making process, double entry system of book-keeping and accounting, simple financial management and reporting system so as to make them creditworthy with the formal FSPs. Eventually these SCGs needs to be linked with commercial FSPs for wholesale loans. In that case FSPs should be supported for development of the wholesale loan products suitable for SCGs. This strategy is linked with (i) advisory services, (ii) local capacity building and (iii) knowledge brokering and networking theme of SNV's delivery channel.

Collaborating with Microfinance Development Bank and Financial Intermediary NGOs for Microfinance and Microenterprise Finance in Tea Value Chain:
Currently there are three branches (two in Ilam and one in Panchthar) of MDB (SBB) and four branches (two each in Ilam and Panchthar) of FINGO (FORWARD) in these districts. These FSPs possess potential to extend financial services to promote microfinance and microenteprrise finance and some pluckers in Kanyam, Fikkle, Pashupatinagar, Barbote, Sakhejung, Jasbire, Kobang etc. have already received financial services from these MDB

and FI-NGO. There is a need to collaborate with these FSPs to extend their financial services to pluckers of their working areas. Further, there is a need to explore the possibilities of opening new branches by these FSPs in other parts of the districts. This strategy is linked with (i) advocacy and (ii) knowledge brokering and networking themes of SNV's delivery channel.

Forging partnership with Commercial Banks and Development Banks for Small, Medium and Large Enterprise Finance in the Tea Value Chain:
There is a need to attract more financial services on small, medium and large enterprise that are positioned in various layer of the tea value chain. CBs and DBs are the only suitable FSPs to extend financial services for small, medium and large enterprise, both for working capital and fixed investment (i.e. short, medium and long term finance). Such a financial support can not be possible on the absence of functional partnership under win-win arrangements (e.g. support to farmers' cooperatives to be eligible for wholesale loans and individual entrepreneurs to prepare the viable investment proposal with commitments for loan repayment) with existing and potential CBs and DBs having branch offices in these districts. For instance, ADBL and Excel Development Bank have expressed their willingness to finance for tea processing activities in Ilam district. They expressed their willingness to enhance access to financial service to the financially viable investment proposals from Panchthar districts as well. This strategy is linked with (i) local capacity building, (ii) advocacy and (ii) knowledge brokering and networking themes of SNV's delivery channel.

Strengthening the Key Actors in the Tea Value Chain for Access to Finance
Various actors in the Tea Value Chain such as tea nursery, agro-traders, tea planters, tea orchard, puckers / suppliers of green leaves, tea producer's, hand processing units, mini-processing units, large processing factories, brokers/packers, wholesalers and exporters must be oriented on the strengths and limitations of various FSPs active in Ilam and Panchthar districts and should be prepared on using financial services. These actors should be socially mobilized to be the clients of these FSPs. All the actors in the tea value chain must be educated on financial discipline, pricing of products and services, on-time payment, lending terms and conditions of various FSPs, cost of being delinquent and default, etc. Further, these actors should be assisted on preparing business plan of their enterprise and external financial need assessment. Main thrust should be to enhance optimal finance for enterprise financing and avoid mis-use. Repayment of principal and interest on loan should be based on both household and enterprise cash flow.

Further, strategies about SNV’s possible interventions should discussed with other actors in the tea value chain including team members in acquiring the financial services form the existing structures and FSPs.

5.4 Activities for Implementing Strategies

Operationalizing above strategies requires implementation of various activities. Some of these activities are outlined hereunder.

Strengthening the Community Based FSPs:
Cooperatives are community based FSPs in Ilam and Panchthar districts. They have potentialities to ensure access to financial services to some actors in the tea value chain, however, their capacity should be strengthened through following.
Institutional audit of existing cooperatives (SCCs, SFCLs, MPCs and TPCs) and identify their strengths, weaknesses, opportunities and threats.

- Amalgamation of more number of small cooperatives into few large cooperatives to ensure scale economics.
- Capacity building (based on their current status and institutional audit) of these cooperatives on aspects such as

- Promotion and management,
- Governance,
- New product development,
- Loan operation,
- Accounting/book keeping,
- Financial management,
- Internal control,
- Operational risk management,
- Management information system,
- Product diversification and
- Service delivery mechanism.

- Linkages of these cooperatives with apex[23] institutions for wholesale lending facility.
- Collaboration with Mahila Jagaran Munch in Ilam to explore their interest to build the capacity of the Tea Producers Cooperatives in Ilam and Panchthar districts.

Farmers' cooperative federations and farmers' federations should be made accountable to implement above activities.

Supporting to Promote Community Based Banking:

This strategy encompasses two pronged strategies namely (i) strengthening the capacity of the SCGs and (ii) linkage of the SCGs with commercial FSPs.

SCGs strengthening:
This strategy can be implemented adopted following measures.

- SCG benchmarking and rating: Establishing current status and performance using rating tools and develop support packages to strengthen the capacity of SCGs at different rating standard.
- Upgrading booking and accounting system: Upgrading accounting system into simple double entry accounting system and introduce the concept of (i) chart of accounts, (ii) journaling of transactions, (iii) main ledgers, (iv) side ledgers – savings and loans, and (v) preparing financial statement (balance sheet and income statement) at least every six months.
- SCG operation policy: Introducing written code of conduct for SCG operation, savings policy, loan policy and financial management policy,
- Simple financial management system: Increasing the efficiency on loanable fund use with capital utilization rate more than 90%,
- Transparent decision-making process: Introducing the system of decision making based on SCG operational policy and a system of compliance audit every six months.
- Improvement on portfolio quality: Enhancing the capacity of the SCGs on tracking the portfolio quality using simple but effecting portfolio tracking system and minimizing the tendency for overdue build-up not only on loan borrowed by SCG from external capital but along in the mobilization of internal capital.

SCGs linkages with FSPs:
This strategy will contained four elements:

- Identify SCGs, devise mechanism to record their existence and enhance their capacity on self regulation (i.e. support to prepare code of conduct of their operation, savings policy, loan policy, book keeping/accounting and financial management) and support to build-up capital by regular savings,
- Legal provision to FSPs to extend **a line of credit directly to mature SCGs (not through an intermediary) without determining the purpose for which the members could use the loans** or any other norms like restricting loan size to tangible assets or determining unit costs for loans coverage. The SCGs should lend on appropriate layer in the tea value chain without any prescribed ceiling on interest

[23]The apex institutions providing wholesale loans to SCCs are RSRF, RMDC, Cooperative Banks and SKDB.

rate, i.e. SCGs should have the flexibility to set interest rate and defining lending terms and conditions.
- Consultations with potential FSPs to involve as partner to extent financial services to identified SCGs.

Major thrust of this strategy lies at initiating linkage processes, in two dimensions:
- **Institutional linkages between SCGs and FSPs** either **indirectly** by involving NGOs and other SCGs promoting institutions as financial intermediaries or **direct**.
- **Financial linkages between savings and credit** in fixed ratios or in dynamic ratios of savings: credit which increases in repeat credit cycles.

The pre-requisites underpinning this strategy include upgrading of the capacity of SCGs to be creditworthy with FSPs to receive wholesale loans.

Local capacity building (LCB) contract need to be signed with capable FSPs with proven expertise on promoting access to finance and community based banking.

Box 8: New Financial Service Providers see the Potentials in Tea Sector

Excel Development Bank is a newly established Development Bank with head office in Birtamod of Jhapa district. The bank has opened a branch office in Ilam Bazzar and operating early 2008. They are exploring investment opportunities both in rural and urban sector. They have identified tea as one of the potential sector where that can do their lending business. It has already started lending on tea sector in Ilam district on experimental basis and disbursed the loan amounting Rs. 2.5 million to small tea processors in Sakhajung and Kanyam VDC of Ilam district. Based on experimental success they achieve on loan recovery, especially on on-time loan repayment, they are planning to extend their loan portfolio in tea sector in future. At the time when existing CBs (ADBL and RBB) has technically stopped further lending in various layers in tea value chain this is quite encouraging that new FSPs have expressed their willingness to finance in various tier in tea value chain. Actors in various layers of tea value chain should be educated on the significance of on-time loan repayment for ensuring continuity on receiving financial services in future.

Collaborating with Microfinance Development Bank and Financial Intermediary NGOs for Microfinance and Microenterprise Finance in Tea Value Chain:
Microfinance Development Banks (e.g. Sawalamban Bikas Bank) and Financial Intermediary-NGOs (e.g. FORWARD) are the FSPs to some layers in the tea value chain. They need to be brought on board at local level and made accountable for providing financial services especially to pluckers and small scale tea producers (< 5 ropani) for maintaining garden and plucking management. This can be operationalized through following:
- Acknowledge existing MDB (SBB) and FI-NGO (FORWARD) as one of the service providers in the Tea Value chain of both districts.
- Dialogue with branches of SBB and FORWARD on forming group of pluckers and providing financial services to them.
- Identify the pluckers living in the working VDCs of MDBs and FI-NGOs and work with them to extend the financial services to the excluded pluckers.
- Support the MDBs and FI-NGOs to build their capacity.

Staff of TEASEC and other working in the Tea value chain development must acknowledge the role of SBB and FORWARD on providing income generating / microenteprrise loans to pluckers and small scale tea producers. They should be included in the district level Tea alliance and motivated to provide access to financial services to pluckers and small holder farmers. Lobbying with Nepal Micro-bankers' Association

(NMBA) and Microfinance Association of Nepal (MIFAN) can help to expedite such type of linkages and networking process.

Forging partnership with Commercial Banks and Development Banks for Small, Medium and Large Enterprise Finance in Tea Value Chain:

Small, medium and large enterprise finance in the tea value chain should come from the CBs and DBs. This requires creation of an enabling environment for emergence, growth and development of tea based small, medium and large enterprise and building confidence that these are financially viable enterprise for FSPs. Operationalizing of this strategy requires the following.

- Bringing selected CBs and DBs as a member of district, regional and national level tea alliance and tea board.
- Support to identify feasible investment proposals in the tea (small, medium and large enterprise development) value chain.
- Support for the appraisal of the tea based small, medium and large enterprise financing.
- Coordination meeting at district and central level.
- Support to ensure on-time loan repayment linking repayment with sales of raw materials or finished products.
- Support on the recovery of the past due loan disbursed since early 1980s by ADBL.

Strengthening the Key Actors in the Tea Value Chain for Access to Finance

Capacity of the various actors in the tea value chain should strengthened for access to finance through following.

- Social mobilisation of some of the actors in the tea value chain such as tea nursery, agro-traders, tea planters, tea orchard, puckers / suppliers of green leaves, tea producer's and hand processing units for social capital formation and preparing them on using financial services from existing FSPs.
- Orientation among key actors in the tea value chain on strengths and limitations of various FSPs active in Ilam and Panchthar districts.
- Awareness and education to all the actors in the tea value chain on financial discipline, pricing of products and services, on-time payment, lending terms and conditions of various FSPs, cost of being delinquent and default, optimal finance and proper use of borrowed fund, repayment of principal and interest on loan based on household and enterprise cash flow. etc.
- Assistance to key actors in the tea value chain on preparing business plan of their enterprise and external financial need assessment.
- Discussion on strategies about SNV’s possible interventions with other actors in the tea value chain including tea alliance members in enhancing access to financial services from existing structures and FSPs.

BOX 8: RECOMMENDED ACTIONS, KEY ACTIVITIES AND POTENTIAL BENEFICIARIES

Recommended Interventions

- Strengthening community based financial service providers;
- Support to promote community based banking.
  - Strengthening of savings and credit groups.
  - Linking savings and credit groups with financial service providers for wholesale loans.
- Collaborating with Microfinance Development Bank and Financial Intermediary NGOs for microfinance and microenterprise finance in tea value chain.
- Forging partnership with commercial banks and development banks for small, medium and large scale enterprise in tea value chain.

Key Activities

- Mapping of FSPs in these districts.
- Operational plan to strengthen community based FSPs (savings and credit cooperatives, small farmers cooperatives limited, multipurpose cooperatives, and tea producers' cooperatives).
- Design and implementation of community based banking scheme i.e. support to FSPs on design of wholesale loan products for savings and credit groups.
- Institutional audit of existing cooperatives.
- Amalgamation of more number of small cooperatives into few large cooperatives.
- Capacity building of the cooperatives on aspects related to promotion and management; governance, new product development, loan operation, accounting/book keeping, financial management, internal control, operational risk management, management information system, product diversification and service delivery mechanism.
- Linkages of cooperatives with apex institutions for wholesale loans.
- Building the technical and managerial capacity of tea producers' cooperatives mainly on delivery of financial services.
- Strengthening of SCGs.
- Developing feasible model for linkages of SCGs with FSPs for wholesale loans;
- Awareness on different FSPs working in the district.
- Consultative meeting at district, region and central level with key stakeholders involving FSPs for access to finance.
- Lobbying with Bankers Association of Nepal (BAN), Nepal Micro-bankers Association (NMBA) and Microfinance Association of Nepal (MIFAN) for access to financial services in tea sector.
- Involving representatives from BAN, NMBA and MIFAN in tea alliance at central level and representatives of FSPs in regional and district level.

Potential beneficiaries:

- Tea nursery entrepreneurs (100)
- Agro-traders (22)
- New tea orchard establishment (1,800)
- Maintenance of old orchard i.e. existing orchard owners (5,700)
- Tea producers cooperatives (30)
- Pluckers (9,600)
- Hand processors (450)
- Mini-processors (35)
- Large processors i.e. individuals (7)
- Large processors i.e. cooperatives (8)
- Brokers/packers (23)
- Wholesalers (15)
- Exporters (10)

6. SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

This report has developed the strategy for access to (micro) finance in the tea sector in Ilam and Panchthar districts that will bring most effective intervention on strengthening the Tea value chain. Summary of major findings and recommendations emerging of this report follows hereunder.

6.1 MAJOR FINDINGS

Tea is an agro-based product cash crop that provides an increased income to all the actors involved in the tea value chain. As opposed to a production channel of Tea estates or private entrepreneurs (having both farms and processing factories), the actors in supply chain of smallholder farmers category consists of the following: farm labourers (unskilled and skilled), smallholder farmers, producers' groups, and processing factories.

Various types of FSPs such as CBs, DB, MDB, FI-NGOs, cooperatives (SCCs, SFCLs, MPCs, and TPCs) and SCGs exist in Ilam and Panchthar districts. At present, except ADBL, RBB (CBs) and Excel Development Bank (DB), none of them are directly involved on providing financial services in different layers of the Tea Value chain.

Key actors/activities in different layers of the tea value chain consists of tea nursery, agro-traders, promotion of tea plantation, maintenance of tea orchard, plucking / supply of green leaves, tea producer's cooperatives, pluckers, hand processing, mini-processing, large processing, brokers / packers, wholesalers and exporters. All these actors in the tea value chain have different financial needs.

Total demand for financial services (loan) among all the key actors/activities in the tea value chain in both districts is estimated at Rs. 1,543.53 million (Rs. 1,251.9 million in Ilam and Rs. 291.6 million in Panchthar) and that of total current supply is estimated at Rs. 291.6 million (Rs. 233.29 million in Ilam and Rs. 58.30 million in Panchthar). This implies that there is huge financing gap in the tea sector. Operation of existing FSPs is concentrated in accessible areas i.e. along the road corridors and virtually no or limited access in the inaccessible (remote) areas. In general, commercial FSPs (CBs, DB, MDB, FI-NGOs) are working along the road corridor of Ilam and Panchthar districts while community based FSPs (cooperatives and SCGs) operates in relatively inaccessible areas.

Financing methodologies adopted by the FSPs are the combination of individual lending, grameen type lending and solidarity group lending. While CBs, DBs and Cooperatives (except SFCLs) provide financial services to individuals, MDBs and FI-NGOs follow grameen type lending, SFCLs works through solidarity groups and SCGs are essentially village banks. Interest rate charged by FSPs ranges between 12% per annum and 24% per annum among most FSPs and interest rates are calculated on declining balance method.

There are no FSPs that exclusively work on extending financial services in the tea sector. Historically, ADBL, RBB, and SFCLs were involved to provide the financial services on tea sector. Mainly they have provided financial services on plantation and maintenance of tea garden, establishment and operation of processing units, etc. They have practically stopped financing in the tea sector owing to gradual overdue build-up on loan portfolio in the tea sector. High overdue build up is related to lack of willingness to pay rather then inability to pay the amount borrowed. Lately in 2008, Excel Development Bank has extended financial support for the establishment and operation of few mini-processing units in Ilam district.

Other FSPs have not extended financial services in the tea value chains. In general cooperatives accumulate savings and on-lend accumulated capital to their shareholders

for addressing their emergency need in most cases and for some productive needs occasionally. Cooperatives have not extended financial services specifically in the tea sector. Even TPCs has not extended financial services in different layers in the tea value chain.

Most of the cooperatives in both districts lack clear understanding on cooperatives principles, norms, and factors affecting cooperative management such as governance, design of products and services, book keeping and accounting, financial management, management information system and fund management.

Recently, efforts have been made to transform tea producers group (registered as local NGO in District Administration Office) into TPCs. TPCs in Ilam district are federated into Tea Producers Cooperatives Federation and process to form the cooperative federations is underway in Panchthar district. Mostly TPCs are too small and lack membership base sufficient enough to achieve scale economics, become functional and achieve operating and financial self-sufficiency. District level farmers' federation is not very effective in Ilam due to lack of clearly defined roles and activities and it appears that there is competition between District level farmer's federations and Tea Producers Cooperative Federation in Ilam district despite that some executive share their position in both federations.

Various actors/activities in the tea value chain require financial services to meet both the working capital and fixed investment and such services are required in the form of microfinance and micro-enterprise finance (case of pluckers and SHCC producers in the tea sector) and small, medium and large scale finance (other actors/activities). They requires financial services for very short short-term (< 1 years), medium term (1-5 years) and long term (> 5 years). If proper access to financial services is ensured, there is huge un-met demand for financial services in the tea value chain and financing gap is estimated at Rs. 1,252 million (Rs. 930 million in Ilam and Rs. 322 million in Panchthar).

There is enough number of FSPs in both districts but their potentials have not been sufficiently used on enhancing the access to financial services to different layers in the tea value chain. In fact role of FSPs as one of the key actors in the tea value chain has not been adequately acknowledged by different stakeholders involved at meso and macro level. There is a need to revisit the role of FSPs to strengthen various layers in the tea value chain. FSPs should be adequately represented for the growth and development of the tea value chain involving them in tea alliance and other committees involved on strengthening the tea value chain at national, regional and local level.

Existing FSPs must diversify their product and services including design of the new product based on cash flow of the enterprises in order to enhance access to finance to all the key actors in the tea value chain. There is lack of transparency on pricing of new products as a result there is mis-understanding among key actors in the tea value chain to expect access to cheap credit. There is therefore a need to ensure transparency on pricing of new products and educate them on cost of financial service delivery and the need to need to cover the service delivery cost out of the interest margin for operational and financial self-sufficiency of FSPs. The various actors in the tea value chain have a general tendency to complain that interest rate charged by most FSP is very high and exploitative.

ADBL and RBB are losing money lend since early 1980s in the tea sector. They are reluctant to extend further medium and long-term finance on the tea value chain mainly to establish tea plantation/garden. ADBL, RBB and NBL have bitter experiences on financing the expansion of tea plantation and tea garden management. Borrowing key actors in the tea value chain have a tendency not to pay loan despite their ability to repay the loan due to their lack of willingness to pay. They always ask for the excuse that interest is more than principle which is obvious if the loan is borrowed and no

payments made for 8-10 years. No attempt has been made to properly use the comparatives advantages of ADBL, NBL and RBB to ensure access to finance to some layers of the tea value chain by resolving this type of attitudinal problem. This need to be acknowledged and these banks should be used for the tea value chain development.

There are 124 cooperatives (TPCs, MPCs, SCCs and SFCLs) in both districts and locals have tendency to promote many small cooperatives rather than few larger cooperatives. There is a need to amalgamate more number of small cooperatives into few large cooperatives to ensure scale economics. Most of them are too small to undertake any business of sizable volume including provision of the financial services.

Strategy to transform tea producers group into tea producers' cooperative should be revisited and role of cooperatives should be looked into from a broader perspective. Each TPC must possess business plan with clearly articulated vision, mission, goal and purpose. Possibilities of either amalgamating TPCs from nearby areas into one larger TPC or increasing the number of shareholders in these TPCs should be explored. Role of district level farmers' federation and District Tea Producers Cooperative Federation should be clearly defined and they should be oriented accordingly. Further, potential of TPCs to act as FSPs has not been clearly visualized.

6.2 RECOMMENDATIONS

On the basis of summary of major findings and conclusions discussed above this report has come-up into few recommendations as well as suggested strategies for increasing access to finance in various layers of the tea value chain.

General recommendations:

- Acknowledge that ensuring access to finance on the tea value chain is not straightforward and it is quite complex with various actors/activities in the tea value chain requiring financial services to meet both working capital and fixed investment through microfinance and micro-enterprise finance as well as small, medium and large scale finance for short short-term (< 1 years), medium term (1-5 years) and long term (> 5 years).

- Use the potentials of existing FSPs in both districts on strengthening different layers of the tea value chain. Acknowledge the role of FSPs as one of key actors in the tea value chain and revisit the role of FSPs to strengthen various layers in the tea value chain. Represent the FSPs for the growth and development of tea value chain involving them in tea alliance and other committees at the national, regional and local level.

- Provide technical backstopping support to FSPs on designing and pricing (transparency) of new financial products suitable to various layers of the tea value chain on participatory way involving key actors.

- Support to motivate clients (key actors in the Tea value chain) of ADBL and RBB on loan repayment and use these FSPs to ensure access to financial services to some layers in the tea value chain based on their comparative advantage.

- Explore the possibilities of amalgamating more number of small cooperatives into few large cooperatives to ensure scale economics. Farmers' cooperative federation should play a paramount role on the amalgamation process.

- Revisit the strategy to transform the tea producers group into tea producers' cooperative and acknowledge the role of cooperatives from a broader perspective. Farmers' cooperative federation should provide sufficient orientation prior to forming tea producers' cooperatives for sustainability and continuity.

- Provide demand-led technical backstopping support to TPCs and explore the possibilities of either amalgamating them or increasing the number of shareholders in the cooperatives. Further, visualize the role of potential of TPCs to act as FSPs in appropriate layer in the Tea value chain. Involve farmers' cooperative federation to enhance the capacity of the TPCs.

- Revisit the role of district level farmers' federation and Tea Producers Cooperative Federation to strengthen the capacity of different actors in the tea value chain and support them to prepare the action plan accordingly.

Specific Recommendations:
In order to address the general recommendations outlined above, the study has recommended following four pronged strategy in order to ensure access to financial services to various layers in the tea value chain. Refer section 5.4 for specific activities under each strategy.

- Strengthening the community based FSPs (SCCs, MPCs, TPCs and SFCLs).
- Supporting to promote community based banking through SCG strengthening and their linkages with FSPs to access wholesale loans.
- Collaborating with MDBs and FI-NGOs for short-term loan for microfinance and microenterprise finance in the tea value chain.
- Forging the partnership with CBs and DBs for short, medium and long-term finance for promoting small, medium and large enterprise finance in the tea value chain.
- Strengthening the key actors in the Tea Value Chain for access to finance.

Various activities under each strategy is linked with SNV's service delivery channels as under.

SNV's Delivery channels	Recommended actions
Advisory services	▪ Mapping of FSPs in these districts ▪ Operational plan to strengthen community based FSPs (savings and credit cooperatives, small farmers cooperatives limited, multipurpose cooperatives, and tea producers' cooperatives); ▪ Design and implementation of community based banking scheme i.e. support to FSPs on design of wholesale loan products for savings and credit groups. ▪ Support key actors in the tea value chain on preparing business plan of their enterprise and external financial need assessment.
Local capacity building	▪ Institutional audit of existing cooperatives. ▪ Amalgamation of more number of small cooperatives into few large cooperatives. ▪ Capacity building of the cooperatives on aspects related to promotion and management; governance, new product development, loan operation, accounting/book keeping, financial management, internal control, operational risk management, management information system, product diversification and service delivery mechanism. ▪ Linkages of cooperatives with apex institutions for wholesale loans, ▪ Building the technical and managerial capacity of tea producers cooperatives mainly on delivery of financial services, ▪ Strengthening of SCGs, ▪ Developing feasible model for linkages of SCGs with FSPs for wholesale loans; ▪ Social mobilisation of some of the actors in the tea value chain such as tea nursery, agro-traders, tea planters, tea orchard, puckers / suppliers of green leaves, tea producer's and hand processing units for social capital formation and preparing them on using financial services from existing FSPs. ▪ Orientation among key actors in the tea value chain on strengths

SNV's Delivery channels	Recommended actions
	and limitations of various FSPs active in Ilam and Panchthar districts. ▪ Awareness and education to all the actors in the tea value chain on financial discipline, pricing of products and services, on-time payment, lending terms and conditions of various FSPs, cost of being delinquent and default, optimal finance and proper use of borrowed fund, repayment of principal and interest on loan based on household and enterprise cash flow. etc.
Advocacy	▪ Awareness on different FSPs working in the district, ▪ Consultative meeting at district, region and central level with key stakeholders involving FSPs for access to finance in the tea value chain. ▪ Discussion on strategies about SNV's possible interventions with other actors in the tea value chain including tea alliance members in enhancing access to financial services from existing structures and FSPs.
Knowledge brokering and networking	▪ Lobbying with Bankers Association of Nepal (BAN), Nepal Micro-bankers Association (NMBA) and Microfinance Association of Nepal (MIFAN) for access to financial services in tea sector. ▪ Involving representatives from BAN, NMBA and MIFAN in tea alliance at central level and representatives of FSPs in regional and district level.

You have nicely and elaborately analyzed and explained the current situation of both FSPs and value chain actors. You have made some concrete recommendations in order to link the existing FSPs with the tea VC actors and talked about how these FSPs (e.g. cooperatives, SCCs etc.) can operate effectively in order to reach the tea VC actors. For me this is one side of the coin. The other side would be how to strengthen/prepare the tea Value Chain actors such as tea nursery, agro-traders, tea planters, tea orchard, puckers / suppliers of green leaves, tea producer's, hand processing units, mini-processing units, large processing factories, brokers / packers, wholesalers and exporters to obtained required financial services with the existing FSPs. I would also be interested in discussing strategies about SNV's possible interventions together with other VC actors including tea alliance members in acquiring the financial services form the existing structures and FCPs. Normally, in value chain financing it would be nice to talk about how these actors could be prepared/ developed to access the financial services from the current FSPs. I have seen a lot of such example in India.

7. REFERENCES

AEC. (2007). *Nepal Tea.* Kathmandu: Agro Enterprise Center/ FNCCI.

Banerjee, B. (1993). *Tea production and processing*. New Delhi: Oxford.

CBS. (2005). *Statistical Yearbook of Nepal 2006.* Kathmandu: Central Bureau of Statistics.

CECI, (1998), "In Search of Best Practices: A Study of Community Based Savings and Credit Organizations in Nepal", Kathmandu.

CECI (1996), "Community Based Savings and Credit Organizations in Nepal: Current Status and Future Prospects", Kathmandu.

CMF, Nepal and CCA, Canada (2003), "A Study on Best Practices: In Delivering Financial and Non-financial Services to Poor Women Through Savings and Credit Cooperatives" Kathmandu, Nepal.

CMF (2003), "A Directory of MFIs in Nepal" Kathmandu, Nepal.

DEPROSC, Nepal and J. Ledgerwood (1997), "Critical Issues in Nepalese Microfinance Circumstances" IRIS Centre, Maryland.

Dhakal, N. H. (2004a), "Performance of Regional Rural Development Banks of Nepal" a seminar paper submitted to Faculty of Humanities and Social Sciences, Tribhuvan University, Kirtipur, Kathmandu in Partial fulfilment of the Requirement of the Degree of Doctor of Philosophy in Economics.

Dhakal, N. H. (2004b), "Microfinance for Achieving Millennium Development Goals in Nepal", Agricultural Credit – Bi-annual Journal, Vol. 37.

Dhakal, N. H. (2002), "Marketing in Nepalese Microfinance Institutions", Agricultural Credit – Bi-annual Journal, Vol. 35.

Dhakal, N. H. 2001a."A study on Microfinance, Micro-enterprise Development and the Contribution to Women's Economic Empowerment" ILO, Geneva.

Dhakal, N. H. (2001), "Efficiency of Nepalese Microfinance Institutions", Agricultural Credit – Bi-annual Journal, Vol. 33.

Dhakal, N. H. (1999), "Expansion of Microfinance Services: The Development of Community Based Savings and Credit Cooperatives in Nepal", Agricultural Credit - Bi-annual Journal, Vol. 31.

GTZ. (2003). *"Orthodox tea of Nepal, a brief analysis."* [Microsoft Powerpoint presentation]. Kathmandu: GTZ/PSP-Rufin.

HOTPA. (n.d.). *Tea plantation handbook.* Kathmandu: HOTPA.

HOTPA. (2006). *Code of Conduct Regulation 2063 and Code of Conduct*. Kathmandu: HOTPA.

Jain, A. & Shrestha, S. (2005). *Industry analysis and strategy formulation of orthodox tea in Nepal*. [Mimeo Report]. Kathmandu: GTZ Nepal.

Malla, S. & Shakya P. (2004). *The trips agreement: potential products for geographical indications.* Retrieved May 13, 2007 from http://www.fao.org/world/nepal/pdfs/wto/chapter9.pdf.

HMG/NPC. (1980). *The Sixth Plan.* Kathmandu: HMG/N, NPC.

HMG/NPC. (1985). *The Seventh Plan*. Kathmandu: HMG/N, NPC.

NTCDB (National Tea and Coffee Development Board). (2007). *Tea-A-Tea*. Kathmandu: NTCDB.

Owuor, P. O. (2005). *Assessment of Constraints in Technology Transfer System and Policies in the Smallholder Tea Sector of the Kenya Tea Industry: An Empirical Analysis of Economic Efficiency and Supply of Tea.* Nairobi: ATPS.

Pant, A. (2006). *Assessing competitiveness of orthodox tea sub sector.* Kathmandu: GTZ/PSP-Rufin.

Rana, A. (2007). *Orthodox tea in Nepal: Upgrading with value chain approach*. Kathmandu: GTZ/PSP-Rufin.

Sharma, S. R. 2004b. "Development of Formal Microfinance Institution and There Contribution on Poverty Alleviation" Kathmandu.

Sharma, S. R. 2004b. "Development of Formal Microfinance Institution and There Outreach on Poor Families in Nepal" Kathmandu.

Sharma, S. R. 2003. "Microfinance Against Poverty: The Nepalese Scenario" published in Economic Review Occasional Paper No. 15, Nepal Rastra Bank, Kathmandu, Nepal.

Sharma S. R., et al. 1996. "Microenterprise in Nepal: Dynamics, Prospects and Constraints", Asian Development Bank, Manila, The Philippines.

Sharma S. R. and V. Nepal. 1997. "Strengthening of Credit Institutions /Programme for Rural Poverty Alleviation in Nepal" ESCAP, Bangkok.

Sinha S. (2000), "Nepal Country Study in Asian Development Bank 2000" published in the Role of Central banks in Microfinance in Asia and the Pacific, ADB: Manila, 2000.

Shrestha, Y. (2006, May - June). Tea is Hot*. Boss Magazine*. n.pag.

SNV. (2007). "*Program on sustainable tea technology extension service delivery system and CoC implementation program at small tea farmers' level in Ilam district*". [unpublished brochure]. Kathmandu: SNV.

Ulrich W. and R. Shakya. 2001. "*Are Small Farmer Cooperatives Ltd. Sustainable Microfinance Organization? – A Second Viability Check*", Working Paper No. 1, Rural Finance Nepal – Partner for Sustainable Financial Services in the Countryside, Kathmandu.

ANNEXES

ANNEX 1: FIELD VISIT SCHEDULE OF THE ASSIGNMENT

Date	Place	Activities
October 13,2008	Fikkle	• Meeting with the team of FORWARD Fikkle Branch and SBB Fikkle Branch
October 14,2008	Jasbire ,Ilam	• Meeting with Mr. Bijay Gurung and prepared field visit plan. • Interaction with Tea Producers' Cooperatives in Mai Pokheri
October 15,2008	Ilam	• Consultation with Division Cooperative Office, Ilam and obtained information of Cooperatives of Ilam and Panchthar district. • Meeting with Branch Manager of Agriculture Development Bank, Ilam Branch • Interaction with the team of FORWARD Ilam Branch and SBB Ilam Branch
October 16,2008	Barbote and Ilam	• Interaction with Savings and Credit Groups (SCGS) of Centre No 19, Promoted by FORWARD • Interaction with the Secretary of District Cooperative federation, Ilam • Meeting with Branch manager of Bank of ASIA -Ilam Branch • Visit to Satabdi Saving and Credit Cooperative ,Ilam • Interaction with the team of Small and Cottage Industry Development Committee, Ilam to gather the relevant information on the current status of small tea processing Units.
October 17,2008	Ilam	• Meeting with Branch Manager of EXCEL Development Bank to gather the information of the lending policy and branch expansion. • Meeting with The Branch manager of NBL Ilam Branch to get the information on lending policy on Tea Sector. • Meeting with Branch Manager of ADBL Ilam Branch. • Interaction with the Board member and Staff of Mechi Mahila Saving and Credit Cooperative Promoted by Nari Kikas Sangh ,Ilam • Consultation with the staff of Ilam Sahayog Parisad Ms. Sunita Basnet • Interaction with Program Director of Sungava Bikas Sanstha ,Ilam • Visit to Women Development Office, Ilam to gather the information on women cooperatives promoted by the Office.
October 18,2008	Tinjure And Phidim	• Visit to Tinjure Tea Cooperative and interaction with Board members of Cooperative. • Meeting with Ranke branch staff of FORWARD. • Moved toward Panchthar and Stayed at Phidim.
October 19,2008	Phidim	• Interaction meeting with BODs of District Tea Federation Panchthar in Phidim. • Meeting wth Mr. Rajesh Saru Magar (Advisor of SNV) and prepared field visit plan. • Meeting with Branch Manager of CAA, Panchthar Branch to gather information on working areas of CAA. • Interaction with Branch Manager of SBB Phidim Branch. • Visit to Women Development Office, Phidim to gather the information on the cooperative promoted by the office in Panchthar District. • Meeting with Branch Manager of NBL • Meeting with Branch Manager of ADBL • Meeting with the team of FORWARD, Phidim Branch • Meeting with Deureli Multipurpose Cooperative Ltd in Jorsal
October 20,2008	Gopetar	• Meeting with the Team of Grameen Mahila Saving and Credit Cooperative, Panchami-1, Gopetar. • Interaction with the team of Himali Tea Producers cooperative Ltd. Subang, Panchthar
October 21,2008	Sumnima Chock	• Visit to Tajelung Tea Producers Cooperative • Interaction with manager of Kanchanjanga Tea Estate. • Meeting with the team of Alternative Energy Cooperative Ltd. Phidim 1, Panchthar • Interaction with BODS and Staff of Pheden Mahila Savings and credit Cooperative, Mathillo Gaun, Panchthar. • Meeting with local NGOs and CSP/DFID manager

Date	Place	Activities
October 22,2208	Fikkle	• Traveled from Phidim to Fikkle via Ilam and collected missing information from Division Cooperative office, District Development Office • Interaction with the team of Mahila Jagaran Manch and NCDC.
October 23,2008	Kanyam and Kolbung	• Prepared Field visit plan With Mr. Madhav Niraula • Visit to Jhalke Gham Micro Tea Industry and Interaction with Mr. Kaji man Kagate • Interaction with the team of Kanyam Tea Producer Cooperative Ltd. Kanyam-2, Ilam • Visit to Pathivara Multiple Cooperative Ltd. Kolbung -2,Ilam to gather the information on the performance of Cooperative. • Visit to Eco Tea Producers cooperative, Kolbung -9, Ilam
October 24,2008	Shree Antu and Samalbung	• Interaction with Manager of Small Farmar Cooperative Ltd. Shree Antu • Meeting with the Staff of Small Farmer Cooperative Ltd, Somalbung
October 25,2008	Panchakanya	• Meeting with the chairperson of Niharika Saving and Credit Cooperative, Panchakanya -6,Ilam • Consultation with the Officer of Tea Board • Consultation with Tea Producers Groups
October 26,2008	Fikkle and Aitabare	• Meeting with the Branch manager of CAA, Fikkle Branch • Meeting with the branch Manager of RBB and ADBN, Fikkle Branch • Sharing meeting With Mr. Tara Nath Sharma, TEASEC • Meeting with Board members of Ilameli Tea Producers' Cooperatives, • Meeting with Branch Manger of Excel Development Bank, Birtamod
October 27,2008	Charpane, Jhapa	• Meeting with Shara in Charpane, Jhapa • Departure to Kathmandu.

ANNEX 2: LIST OF PERSONS' MET

Date	Place	Name of the Person	Designation	Name of Institution	Contact No.
Sept. 19, 2008	Kathmandu	Mr. Sunil Rai	Chairperson	TEASEC	9851001936
Sept. 20, 2008		Mr. Dilli Baskota	Sectary	HOTPA	9851014421
Sept. 20, 2008			Marketing Officer	HIMCOOP	
Sept. 26, 2008		Mr. Bhusan Subba	Consultant	WINROCK	9851079978
Sept. 26, 2008		Mr. Maheshwor Ghimire	Consultant	SNV	
Sept. 16, 2008		Mr. Rajendra Jabegu	Portfolio Coordinator	SNV Dharan	9842661583
Sept. 25, 2008		Dr. Dev Bhakta Shakaya	Executive Director	AEC/FNCCI	9851066062
October 13, 2008	Fikkle	Ms. Sova Baral	Branch Manager	Forward	027-690308
		Mr. Tanka Prasad Adhikari	Branch Manager	SBB	027-540446
October 14, 2008	Jasbire, Suwang	Mr. Bijaya Gurung	Tea Sector Coordinator	TEASEC	9842645700 9742614232
		Mr. Sarad Subba	-	Entrepreneur	9842646800 027-521029
		Mr. Binod Kumar Khatiwada	-	Tea Farmers	NA
October 15, 2008	Ilam	Staff Team	Act. Officer	Division Cooperative, Ilam	027-520097
		Mr. Tek Naryan Acharya	Branch Manager	ADBL	027-521443
		Mr. Padam Khadka	Branch Manager	SBB	027-521664
		Mr.Abinas Chaudhari	Branch Manager	FORWARD	027-690307
October 16, 2008	Ilam	Mr. Kamal Shrestha	Secretary	District Cooperative Federation ,Ilam	
		Mr. Dharma Nanda Ojha	Office Assistant	Satabdi Saving and Credit Cooperative ,Ilam	027-521514
		Mr. Bishwa Raman Acharya	Chief Industry officer	Small and Cottage industry Development Committee, Ilam	-
October 17, 2008	Ilam	Mr. Tika Prasad Dahal	Branch Manager	Excel Development Bank ,Ilam	027-521633
		Mr. Nirmal Kumar Mainali	Branch Manager	Nepal Bank Limited, Ilam	027-520018
		Ms. Rekha Shrestha	Office Assistant	Mechi Mahila Savings and Credit Cooperative, Ilam	027-520251
		Ms. Sunita Basnet	Enterprise Development Facilitator (EDF)	Ilam Cooperation Council	027-521201(Res)
		Mr. Khiba Raj Dahal	Program Director	Sungava Bikas Sanstha	027-520447/521538
October 18, 2008	Tinjure and Phidim	Mr. Padam Prasad Paudel	Official Chairperson	Tinjure Tea producer coopertive, Phakphok	NA
October	Phidim	Mr. Rajendra	Chair Person	District Federation,	9842661583

Date	Place	Name of the Person	Designation	Name of Institution	Contact No.
19, 2008		Jagebu		Ilam	
		Mr. Rajesh Saru Mager	Social Inclusion Advisor	SNV, Phidim	024-520017
		Mr. Krishna Majhi	Intern	SNV	9842023799
		Mr. Raman Raghubansi	Branch Manager	NBL, Phidim	-
		Mr. Ram Narayan Chhetri	Act. Branch Manager	ADBL, Phidim	-
		Mr. Suba Raj Thapa and team	President	FNCCI, Phidim	-
		Mr. Chhabi Baskota and team	Chairperson	Hatemalo Agricultural Cooperatives	9741053907
		Ms. Urmila Shrestha and team	Chairperson	Deureli Multipurpose Cooperatives Ltd. Jorsal	-
		Ms. Sarita Bhandari	Branch Manager	SBB	9842640376
		Staff Team		Women Development office, Panchthar, Phidim	024-520145
		Mr. Dhan Kumar Chaudhary	Branch Manager	FORWARD	024-5690107
October 20, 2008	Gopetar, Panchami	Mrs. Dil Kumari Katuwal	Chairperson	Grameen Mahila SCC, Panchami	-
		Mr. Laxmi Suwang	Chairperson	Himali Tea Producer Cooperative ,Suwang	-
October 21, 2008	Phidim, Panchthar	Mr. Rajendra Bhattarai	Planning Officer	DDC, Panchthar	
		Mr. Nirananda Acharya	Manager	Kanchanjanga Tea Estate	-
		Mr. Bishwa Raj Bhatta	Advisor	DACAU (UNICEF) Phidim	-
		Ms. Pabitra Subba	Manager	CSP/DFID	-
		Mr. Ganga Khanal	Executive Director	Rural Community Development Centre, Phidim	-
		Mr. Nanda Nemwang	Programme Manager	AEDC	024-520439
		Mrs. Dhana Maya Nemwang	Chairperson	Pheden Mahila Saving and credit Cooperative, Phidim	-
October 22, 2008	Ilam	Mr. Rajesh Parajuli	Socila Mobilizer	Mahila Jagaran Manch, Ilam	027-520445
		Mr. Dinesh Bhattarai	Planning Officr	NCDC, Ilam	027-520411
October 23, 2008	Kanyam and Kolbung	Mr. Madav Niraula		TEASEC	9842635733
		Mr. Kaji Man Kagate	Entrepreneur	Jhulke Gham Micro Tea Industry	-
		Mr. Devi Prasad Aryal	Chairperson	Pathivara Multi Purpose Cooperative	-
		Mr. Ganesh Aryal	Manager	ECO Tea Producer Cooperative, Kolbung	-
October 24, 2008	Shree Antu and Samalbung	Mr. Ichha Ram Pokhrel	Manager	Small farmer Cooperative Limited, Shree Antu	-
		Mr. Surya Tamang	Office Assistant	Small farmer Cooperative Limited, Somalbung	-
October 25, 2008	Panchakanya	Mr. Kamal Rai	Chair Person	Niharika Saving and Credit Cooperative,	-

Date	Place	Name of the Person	Designation	Name of Institution	Contact No.
				Panchaknya	
October 26, 2008	Fikkle and Itabare	Mr.R.B. Karki	Branch Manaer	Commercial Agiculture Alliance (CAA), Fikkle	-
		Mr. Tara Nath Sharma	Manager	TEASEC	027-540014
		Mr. Ek Bdr. Basnet	Loan Officer	ADBL, Fikkle	
		Mr. Hem Raj Kharel	Branch Manager	RBB, Fikkle	-
		Mr. Pankaj Ghimire	Branch Manager	Excel Development Bank, Birtamod	-
October 27, 2008	Jhapa	Mr.Sita Ram Bhattarai	Research assistant	Shahara Nepal, Charpane ,Jhapa	023-541198
		Mr.Mahananda Paudel	Research assistant	Shahara Nepal, Charpane ,Jhapa	023-541198

ANNEX 3: SURVEY INSTRUMENTS USED

ANNEX 4: TEA VALUE CHAIN IN ILAM AND PANCHTHAR DISTRICTS