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# Investing in rural people in **Nepal**

Nepal is a landlocked country with a rich diversity of ethnicities and cultures. Agriculture is central to the national economy, generating about 21.1 per cent of national GDP. Around 62 per cent of the country's workforce depends principally on agriculture for their livelihoods.

The country's agriculture sector is a mix of crop and livestock farming. At the sub-national level, funds, functions and functionaries managed by the central, district and village authorities are now moving to the seven new states and 753 local governments, for which new legislation, institutions and administrative procedures are being formalized. Although Nepal's economy contracted during the COVID-19 pandemic, it has since rebounded strongly, if unequally, with GDP expanding by 4.8 per cent in 2021 and 5.6 per cent in 2022. However, growth is expected to fall to 2.16 per cent in 2023. High inflation rates of almost 8 per cent, in part due to the ongoing conflict in Ukraine, will continue to impact prices of fuel, food and agricultural inputs. Rising import costs are compounded by the depreciation of the Nepalese rupee against the United States dollar. Urban-rural disparities are high, and nearly 80 per cent of the population lives in rural areas.

Nepal has strong potential for development. Its agricultural biodiversity means it can produce a wide range of crops (cereals, pulses, oilseed crops, fruits, vegetables and other cash crops) at different locations throughout the country.

Foreign employment has been a common livelihood strategy for Nepalese households over the last 30 years. Almost half of all Nepalese households have at least one migrant family member currently abroad or living in Nepal as a returnee migrant.



An estimated 2 million Nepalese people work abroad (the majority being men), and their remittances make up around 23 per cent of GDP. As a result, women are taking on increasing responsibility for both household and farm management.

## Eradicating rural poverty in Nepal

Nepal has made significant progress in reducing poverty. Poverty has been halved since 2010 despite profound political change and challenges, including a 7.8-magnitude earthquake and a six-month border blockade with India. In 2022-2023, 15.1 per cent of the population was living at or below the US\$1.90 per day poverty line, and 17.4 per cent is multidimensionally poor. The multidimensional poverty rate is much higher in rural areas (28 per cent) than in urban areas (12.3 per cent). Madhesh and Karnali (provinces 2 and 5), which are home to the highest number of poor people in Nepal, also have high multidimensional poverty (24.2 per cent and 39.5 per cent, respectively).

Remoteness and lack of connectivity have been key drivers of poverty in the hills and mountains of Nepal. These challenges are being addressed by expanding road and telecommunications networks to link producers and markets, and by leveraging comparative advantages in livestock and counter-seasonal crop production (e.g. vegetables and seed potatoes). In the Terai lowlands, poverty is driven by high levels of landlessness and lack of employment opportunities outside agriculture. Other problems include fragmented farms, limited irrigation and mechanization, and lack of improved seeds and fertilizers, all of which reduce the competitiveness of Nepalese cereals, pulses and oilseeds against subsidized Indian products.

## IFAD's strategy in Nepal

Nepal was one of the first countries to benefit from IFAD loans, beginning in 1978. IFAD's strategy in Nepal (COSOP 2021-2026) is guided by Nepal's Fifteenth Plan, its Agriculture Development Strategy and the Nepal Financial Inclusion Roadmap. Through market participation and increased climate resilience facilitated by accountable local institutions, IFAD aims to accelerate the recovery of Nepal's small-scale producers and poor people in rural areas, while supporting sustainable improvements in their incomes and nutrition. IFAD also supports greater market participation; competitive, inclusive supply chains in and beyond agriculture; improved resilience of rural communities to the impacts of climate change and economic and other shocks; and strengthened rural and community institutions with the capacity to effectively meet development needs under the decentralized federal system.

Historically, IFAD's investments have been concentrated in the remote hill and mountain areas, where poverty levels are high and access to infrastructure, services and markets is extremely limited.

Key activities include:

- providing rural infrastructure and services
- targeting the most marginalized social groups, especially women and youth
- improving income-generating opportunities for poor rural households
- supporting good governance and peacebuilding
- building greater resilience to shocks and longer-term risks, especially climate change
- deepening networks of rural institutions.

## Ongoing operations



### Agriculture Sector Development Programme (ASDP) (2017-2024)

The growth rate of the agriculture sector has been uneven. The sector suffers from low investment and challenges in commercialization and modernization. Two thirds of the country's labour force is engaged in agricultural production, but the majority are unskilled and lack knowledge of updated cultivation practices. Farmers are also vulnerable to extreme weather events and climate change. Poverty remains a rural problem, strongly associated with gender, ethnicity, caste and region.

The Agriculture Sector Development Programme (ASDP) scales up the High-Value Agriculture Project in Hill and Mountain Areas by continuing to use a market-driven approach to increase incomes and improve livelihoods. It aims to increase access to economic opportunities for poor farmers and small producers. It is also improving community infrastructure and services in hill and mountain areas, and reducing disparities related to gender, ethnicity and caste through greater inclusion of disadvantaged groups in development.

The programme is implemented in all 10 districts of Province 6, and it targets smallholder producers and landless rural people interested in engaging in targeted value chain activities. Two thirds of the programme participants are women, with disadvantaged households specifically targeted for inclusion. ASDP is expected to reach about 35,000 households directly and a further 40,000 households indirectly.

### Samriddhi – Rural Enterprises and Remittances Project

The objective of the project is to reduce poverty and achieve sustainable peace through employment-focused, equitable and inclusive economic development. The project diversifies the range of economic activities accessible to poor rural households and unemployed young men and women by:

- promoting self-employment and small businesses and microenterprises that can generate better incomes and jobs – through both on-farm and off-farm activities
- providing vocational training and apprenticeships for gainful job placement
- developing mechanisms specifically targeting migrant households and returnees, so they can make the best possible use of their remittances.

In Nepal, most of the population lives on low-input/low-output agriculture, which provides limited income. Wage labour and widespread migration have driven 3 million Nepalese, mostly from rural areas, to find work abroad.

The project is being implemented in 16 districts of Provinces 1, 2 and 3. It has been restructured, with partial cancellation of IFAD proceeds. The project provides decent jobs to 30,000 young people and promotes 10,000 enterprises. The project also provides financial education to 170,000 people to support financial inclusion.

## Value Chains for Inclusive Transformation of Agriculture Programme (VITA) (2020-2027)

VITA aims to improve the livelihoods and nutrition of poor and vulnerable people in Nepal by enabling them to build farm enterprises that are both profitable and sustainable, strengthen their market linkages and access an improved range of quality rural financial services.

The programme aims to reach 120,000 small-scale producers from around 111,000 households with a total of approximately 530,000 household members. Of these small-scale producers, 70,000 are expected to increase their total real net farm income by at least 60 per cent by the end of the programme, and a further 50,000 by at least 40 per cent. VITA operates in 28 districts in all rural districts of Madhesh and Lumbini provinces and the districts of Bagmati province worst affected by the 2015 earthquake.

VITA will also extend financial services to targeted bankable project participants of the IFAD-supported Rural Enterprises and Remittances Project in Koshi and Madhesh provinces; the Agriculture Sector Development Programme in Karnali province; the Sustainable Smallholder Livestock Value Chains 2 (SLVC2) and several other projects implemented also by Heifer. The programme has three components: (i) developing inclusive supply chains; (ii) expanding financial services to agriculture; and (iii) establishing supply chain infrastructure.



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IFAD is an international financial institution and a United Nations specialized agency. Based in Rome – the United Nations food and agriculture hub – IFAD invests in rural people, empowering them to reduce poverty, increase food security, improve nutrition and strengthen resilience. Since 1978, we have provided more than US\$24 billion in grants and low-interest loans to fund projects in developing countries.

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