

GGGI Insight Brief: Nepal

The Terai Agribusiness and Enterprise Challenge Fund: Early Lessons and Recommendations

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EXECUTIVE SUMMARY

This Insight Brief introduces the Terai Agribusiness Enterprise Challenge Fund (TAECE) funded by the Korea International Cooperation Agency (KOICA) and implemented by the Global Green Growth Institute (GGGI). The TAECE aims to support micro and small agribusinesses with grants and technical assistance to expand their products or services. It employs a rigorous selection process, including concept note submissions, preliminary screenings, technical advisory committee endorsements, full proposal submissions, and due diligence. However, launching the TAECE was not without challenges. Balancing government-defined small-scale enterprises with on-the-ground realities proved challenging and necessitated tailored adjustments. Moreover, encouraging participation from women-led agribusinesses faced societal hurdles. This insight brief shares lessons learned by GGGI, emphasizing the importance of co-creating proposals, engaging with local institutions, and employing diversified communication approaches. The key strategies and features of the TAECE offer lessons and insights for similar programs.

What is a Challenge Fund?

The Challenge Fund (CF) is a financing mechanism to support entrepreneurs and innovators who lack capital to start up or scale up their businesses. The key objective of a CF is to address a significant development issue that would otherwise remain unaddressed by market forces. This issue could be related to different thematic areas such as Information Communication Technology (ICT), agriculture, tourism, energy, construction, etc. A CF relies on the principle of competition and invites companies, organizations, and institutions working in the targeted field to submit project proposals. The most innovative, impactful, and potentially scalable models are selected and granted funds under the CF. Additionally, many CFs offer supplementary services, such as technical support to build the capacity of entrepreneurs to enhance their businesses.

1. Introduction: Terai Agribusiness and Enterprise Challenge Fund

Following the introduction of a Challenge Fund by UK Aid in 2008, numerous CFs exist in Nepal today. Some of the most prominent ones are managed by the Swedish International Development Cooperation Agency (SIDA), the Nepal Agricultural Market Development Program (NAMDP), and other UK-funded initiatives such as Purnima. While the basic principle of these funds remains the same, their implementation modality, fund sizes, thematic area, and target population vary.

The TAEFC is one such unique program, serving as a vital component of the KOICA-GGGI Climate Smart Agriculture (CSA) project titled 'Building Climate Resilience and Reintegrating Economically Displaced Workers through Climate Smart Agriculture in the Terai Flood Plain, Nepal'. The overarching goal of the project is to facilitate the widespread adoption of climate-smart agriculture, aiming to reduce vulnerability and enhance food and job security, particularly for women, returned migrant workers, and youth in the Terai Flood Plain. On the other hand, the TAEFC has specific objectives and a focused area that ultimately contributes to the project's overall aim.

The rationale for the TAEFC lies in recognizing agriculture as the most significant economic sector in Nepal, both in terms of its contribution to GDP and employment. However, weak market linkages in the agriculture sector result in poor access to markets, high transaction costs, and low value addition to farm produce. Agribusinesses play a crucial role in backward linkages with smallholder business-oriented farmers, thereby linking them with input supplies and markets. However, inadequate rural financial services contribute to low investments in agricultural production and in agro-based micro and small enterprises. Thus, the TAEFC has been set up to improve access to financial services for agribusinesses.

Objective of TAEFC: Financial and technical support to organizations to expand and diversify their products, services, and delivery channels, particularly in the agriculture value chains.

Fund size: USD 1.56 million

Types of grants: Micro grants of USD 4,000; small grants of USD 20,000

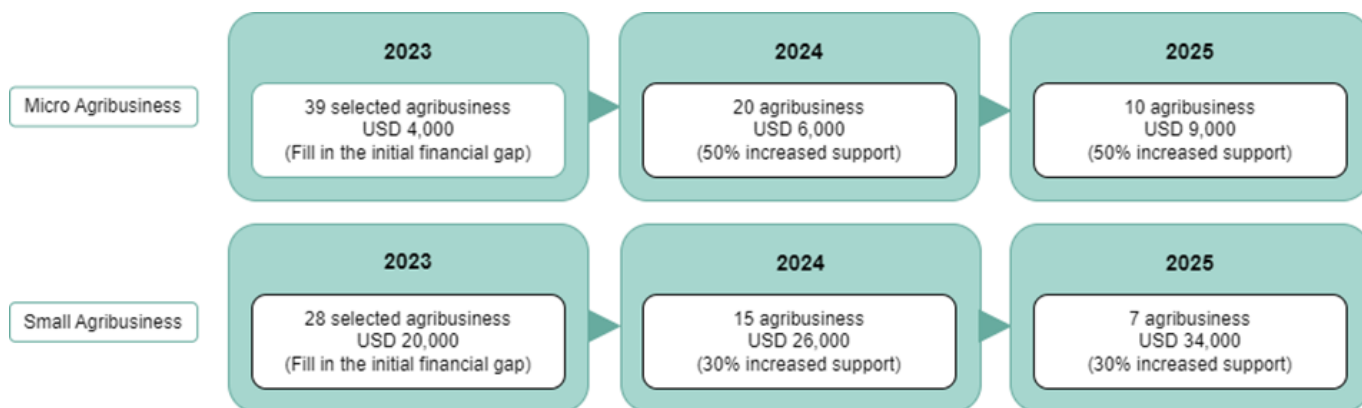
Economic sector: Agriculture

Target organization: Micro- and small-scale agribusinesses—cooperatives, private agriculture firms, agrovets, traders, millers, and Information Communication Technologies.

Implementation area: Ten municipalities in the Dhanusha and Mahottari districts.

The TAE CF is structured as a three-year program divided into the Incubation, Acceleration, and Championship stages planned for 2023, 2024, and 2025, respectively

Figure 1: Implementation Modality



In the course of identifying, capacitating, and supporting agribusinesses eligible for grants under the incubation program, GGGI has identified early challenges and lessons learned that have the potential to help other organizations implementing similar initiatives.



Image 1. Recipient of Challenge Fund Grant for Vegetable Production at Kamala Municipality, Dhanusha

2. Incubation Program: Initial Challenges

i. Prominent small-scale agribusinesses meeting the GoN's standard did not exist in the project area

A key requirement for agribusinesses applying for the small grant of USD 20,000 is that they must be registered as a small-scale agribusiness. According to the GoN, small-scale enterprises are those with fixed assets of USD 1.2 million and maintaining between 10-49 employees. However, a significant portion of the agribusinesses in the project area are just in the initial stages with limited fixed capital and workforce. Thus, most of the agribusinesses applying for the small grant did not qualify as a small-scale agribusiness.

ii. Unequal number of micro- and small-scale agribusinesses

The TAEFCF initially envisioned supporting 30 micro- and 30 small-scale agribusinesses under the incubation program. However, as mentioned, only few applicants qualified for the small grant. This caused TAEFCF to revise its initial target resulting in more micro-scale agribusinesses and less small-scale agribusinesses.

iii. Repeated call for proposals

The TAEFCF initially invited applicants only from the two project districts, but the application volume was insufficient. This led to the need for a second call for proposals from areas beyond the project districts. The process took twice as long and used twice as many resources as were planned for the application call.

iv. Limited knowledge of proposal development

Many of the targeted applicants which essentially were operating as micro-scale agribusinesses had little experience with writing grant proposals or managing grants. This necessitated a greater focus on technical assistance to applicants.

v. Limited participation from women-led agribusinesses

Despite fervent efforts to encourage greater participation from women-led agribusinesses, the program encountered lower-than-expected application rates from this target group. Several factors, including domestic workload, limited access to education, cultural restrictions, and domestic responsibilities, hindered their participation.

3. Practical adjustments

Considering the previously mentioned challenges, several adjustments were made in the grant allocation process.

i. Revised grant allocation criteria

Instead of strictly adhering to the GoN's standard, the small-scale grant of USD 20,000 was awarded based on the business's annual turnover. This modification meant that the agribusinesses with an annual turnover equal to or greater than the grant amount of USD 20,000 were eligible for a small grant. After the adjustment, TAECF was able to support 28 agribusinesses with a small grant. The grant amount intended for the remaining two small agribusinesses was then redirected to accommodate seven microbusinesses. Hence, the TAECF is supporting 67 agribusinesses under the Incubation program.

ii. Co-creation of proposals

Recognizing that a significant number of applicants faced challenges in proposal writing, GGGI took proactive steps to develop proposals together with the applicants. GGGI provided guidance in developing concept notes, creating business plans, and refining project proposals, as well as general business advice. Looking ahead, GGGI plans to conduct workshops and establish a networking platform for selected applicants, aiming to enhance their overall business.



Image 2. Project Concept Note (PCN) Writing Training to Interested Challenge Fund Grant Applicant

4. Lessons Learned

i. Engagement of Municipality and Agriculture Knowledge Centre for Targeted Outreach:

A significant realization was the instrumental role played by government institutions such as municipality and agriculture knowledge centers, given that they are intimately connected with the farming community and various actors along the agriculture value chain. Through consistent communication and active consultation with these entities, GGGI was able to effectively reach the target group. Their wealth of knowledge, available resources, and invaluable recommendations proved indispensable in steering the project towards success. Their local presence and deep-rooted connections within the agricultural landscape provided crucial insights that guided the decision-making processes. This experience illustrated the significance of establishing strong partnerships with local government bodies and specialized knowledge centers to ensure not only effective dissemination of information but also to harness the collective expertise for the efficient execution of the project.

ii. Technical support:

In retrospect, it was recognized that a significant portion of the applicants comprised micro-scale agribusinesses with limited prior exposure to proposal development and grant management. This realization underscored the critical importance of the technical support provided by GGGI in aiding applicants in crafting effective proposals. By offering guidance in these fundamental areas, GGGI did not just facilitate their participation but also cultivated a genuine interest in the program. This experience also affirmed that grant programs should not be viewed solely as a financial aid, but also as an opportunity to empower applicants with the necessary technical and financial knowledge to navigate the complexities of project implementation successfully. This collaborative approach not only improved the quality of proposals but also cultivated a sense of ownership and investment among the applicants, ultimately contributing to the program's overall success.

iii. Multiple approaches to information dissemination:

One of the most salient takeaways from this initiative was the recognition that a one-size-fits-all approach to communication would not suffice. The target group spanned a range of organizations from rural village farmers to urban area traders, each with distinct communication preferences and accessibility. This prompted adoption of a multi-pronged approach to information dissemination. Utilizing various mediums such as FM radio broadcasts, newspaper advertisements, community meetings, informative brochures, and mobile communication channels, GGGI ensured comprehensive coverage and accessibility. This tailored approach not only improved the reach to women and disadvantaged groups but also enhanced the engagement levels within both urban and rural contexts. It emphasized the importance of flexibility and adaptability in communication strategies, demonstrating that a diversified outreach methodology is imperative when dealing with a diverse set of stakeholders.



Image 3. Proprietor of Gra. Pa. Swa. Ka Agrovat Saroj Mahato, Recipient of Challenge Fund Small Grant at Mithila Municipality, Dhanusha



Image 4. Women Small Farmers Agriculture Cooperative Private Limited-Women-led Enterprise at Mithila Bihari Municipality, Dhanusha

iv. Avoiding frauds and malpractice

Setting up and abiding by the minimum standards for selection (Annex 1 and 2) of applications was one of the first measures in avoiding any risks of fraud and malpractice. Applications review (Annex 3) followed by a rigorous background check of the shortlisted applicants ensured the selection of credible agribusiness in the region. Their physical establishments, farm operations, human resources, capital investment along with their motivation toward the access and utilization of the grant, were taken into consideration during the background check. Another key step in the selection of grantees was consultation and coordination with development partners as well as government entities to avoid the duplication of grants.

In addition, a thorough due diligence of granted projects were completed to minimize the risk of fraud. The due diligence process investigated several factors like financial management, system of project management, criminal history, environmental safeguard commitments, and any conflict of interest with GGI. This was implemented in written and well documented forms.

Above all, the mandatory recommendation letter from municipalities and agriculture knowledge centers attest to the credibility of the selected grantees. Standardization of rates in procurement as well as staff hirings proved effective in avoiding misuse of grants. Cost sharing was another important operational modality of TAECF where the grant amounts were fixed and were provided on a cost-sharing basis (70% TAECF grant and 30% co-financing). It helped to leverage the resources of the TAECF Challenge Fund and maximize the impact of the supported projects and initiatives.



Image 5. Installation of Drip Irrigation System by Challenge Fund Grantee of Laxmi Bahuudeshya Matsya Tatha Pashupanchhi Firm in Dragon Fruit Farm at Mithila Bihari Municipality, Dhanusha

ANNEXES

Annex 1. Eligibility Criteria for TAECF

The TAECF has the following grant eligibility criteria.

- Be a for-profit-oriented legal entity (registered as per Government of Nepal guidelines) with a business presence (willing to work) in the Dhanusa and Mahottari Districts.
- The concept note will be open for all eligible entities. However, priority will be given to (1) entities registered in Dhanusha and Mahottari districts, and (2) businesses headed by women, youth, and returned migrant workers (esp. returned labour after 2020).
- The entity must be involved in agriculture/agro-forestry value chain business related to vegetables, rice, wheat, maize, spices, dairy, Information Communication Technology (ICT), insurance, or may be associated with different segments of the value chain such as inputs, processing, or marketing to aforesaid sectors. Along with this, the entity must be involved, or planning to be involved, in expanding businesses by focusing on climate-smart interventions and green jobs.
- At least two years of operations is required for the small business category with a minimum turnover of USD 20,000 annually, while documented experience is not required in case of micro businesses. New innovative ideas for agriculture value chain businesses (both micro and small) are encouraged.
- Applicants must be able to create job opportunities (part/full-time employment) for the applied project period.
- In addition, women, youth and returned migrant workers are encouraged to apply for the grant.

Annex 2. Evaluation criteria of proposals

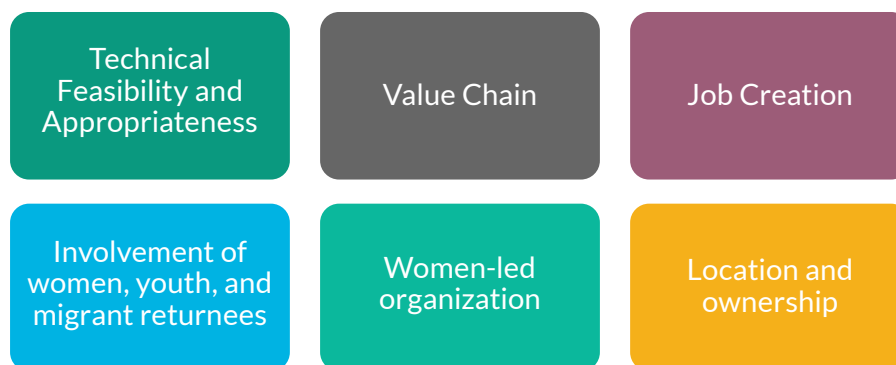


Figure 2. Evaluation Criteria

The TAEFCF proposals are assessed against transparent and pre-determined criteria. Entries are assessed in six categories: Technical Feasibility and Appropriateness; Agriculture Value Chain; Involvement of Women, Youth, and Returned Migrant Workers; Job Creation; Women-led Organization; Location; and Ownership. Each deliverable is scored against a maximum number of points in terms of how well they address these broad criteria. The maximum score is 100 and the minimum score is 0. Detailed evaluation methodology is described below.

- Technical Feasibility and Appropriateness (maximum score of 20): The proposal should describe activities that align with the project's objectives, focusing on agriculture, specifically vegetables, spices, and cereals.
- Value Chain (maximum score of 20): Applicants should demonstrate their commitment to planning activities that fit with market systems, engaging various value chain actors, including input (five points), production (ten points), and output levels (five points).
- Job Creation (maximum score of 20): Businesses should aim to generate both full-time and part-time jobs during their interventions. The minimum job creation targets are five jobs for micro-enterprises and 15 jobs for small enterprises. Meeting these targets earns applicants 20 points. Not meeting the targets but mentioning job creation earns ten points. No mention of job creation results in zero points.
- Involvement of Women, Migrant Returnees, and Youth (maximum score of 20): The proposal's alignment with the needs of these target groups and their direct benefits are crucial. Points are awarded based on the extent of involvement: (Women 50%, Youth 20%, Returnee 20% for 20 points; Women 30%, Youth 20%, Returnee 10% for 15 points; Women 10%, Youth 10%, Returnee 10% for 10 points; Below these percentages 5 points).
- Women-led Organization (maximum score of 10): Organizations led by women receive higher priority. If the owner is a woman, applicants earn 10 points; if the lead staff is a woman, applicants earn 8 points; having any female staff member earns 5 points; and, no women involvement results in zero points.
- Location and Ownership (maximum score of 10): Applicants from project districts/municipalities receive 5 points, with an additional 5 points if the applicant owner is from the project districts. No marks are given to applicants from outside the project districts. In joint ventures, i.e., one business owner is from outside the project district, only 5 points are allocated in total.

Annex 3: Selection process

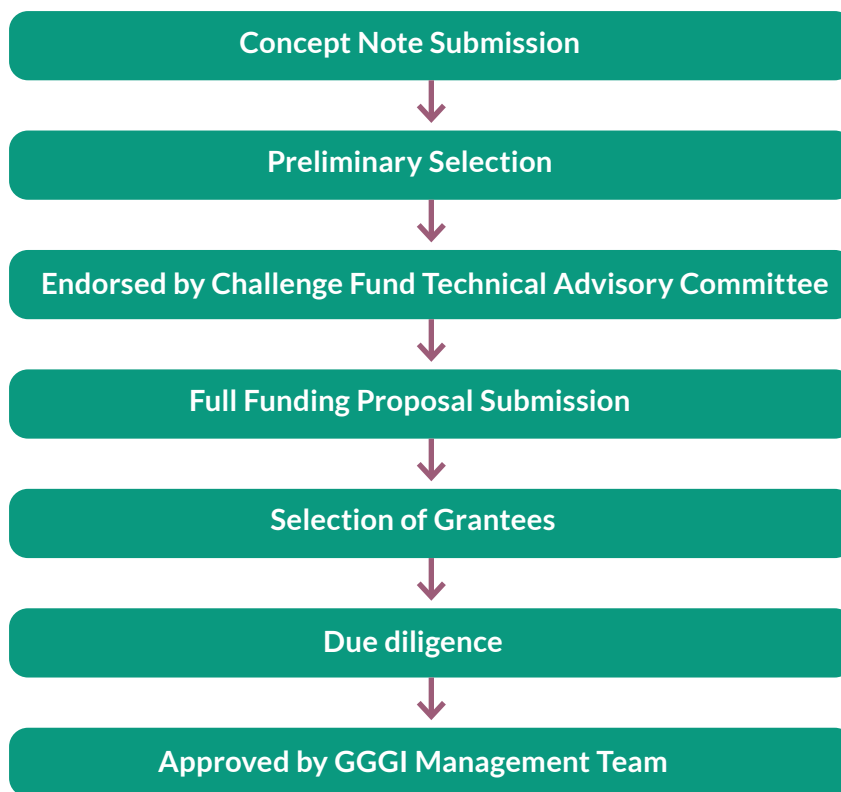


Figure 3: Selection process

The TAECF application process employed two major steps. First, interested applicants submitted concept notes fulfilling the requirements outlined in a shared template. These notes included basic information about the business along with proposed project activities of less than 3 pages. The Screening Committee then conducted a preliminary selection of submitted concept notes to identify the eligible candidates and exclude submissions not meeting the program’s eligibility criteria. The committee screened concept notes and forwarded the selected documents to the TAECF –Technical Advisory Committee (TAECF-TAC) for recommendation. The CF-TAC comprised representatives from the provincial agriculture ministry, district coordination committee, agriculture knowledge centres, GGGI and KOICA.

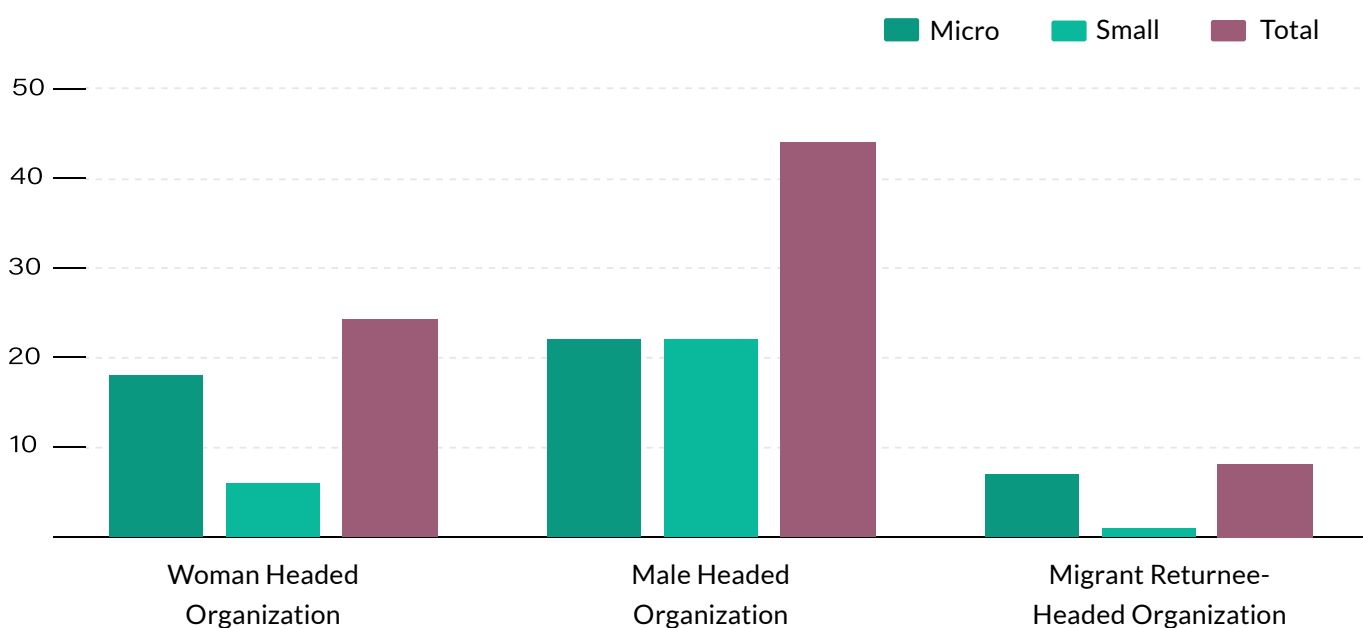
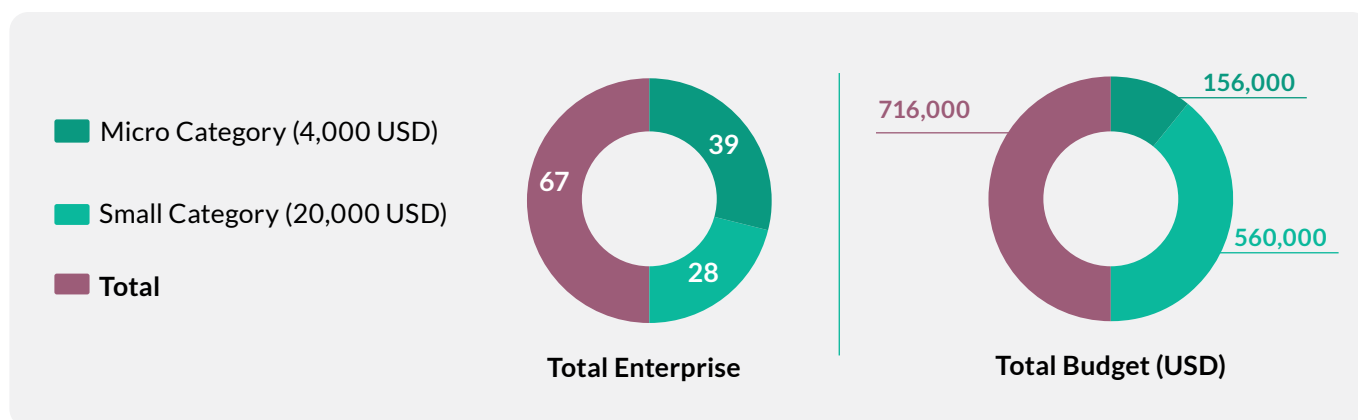
Second, applicants of selected concept notes were invited to submit the full technical proposal with financial proposal, monitoring and evaluation plan, workplan, and environment and social check list. Both concept notes and proposals were assessed in full transparency based on pre-defined criteria and scoreboard including technical feasibility and appropriateness, involvement in agriculture value chain, job creation, engagement with women, youth and migrant returnees, gender of business owner, and location and ownership of business.

The proposals with the highest scores were forwarded to the GGGI Management Team for approval. When the applicant’s proposal was approved, a grant agreement was signed between the applicants and GGGI.

Before calling for concept notes a pre-information workshop was organized to inform about of the Challenge Fund, timeline and implementation modalities with key stakeholders including potential applicants, government officials, and development partners. The workshop assisted eligible businesses in submitting their concept notes.

Annex 4: Statistics from the Incubator Program

Enterprise Sectors	Micro-Grant Recipients	Small Grant Recipients	Total Grant Recipients (Micro +Small)
Agro-vet	3	5	8
Cooperatives	8	4	12
Information Communication and Technology (ICT)	0	1	1
Miller	3	2	5
Private Agriculture Firms	24	13	37
Trader	1	3	4
Total	39	28	67





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