



Markets and Cash Research Project: Preliminary findings 10 Nov 2009

WFP Nepal Food Security Monitoring and Analysis Unit

This update outlines preliminary findings from WFP Nepal's research project on food markets and cash interventions in the Mid and Far West Hills and Mountains (MFWHM). The study focuses on the trade corridor along the Karnali highway (Kalikot, Jumla and Mugu districts – see map) where markets do not function well and food prices are high. It aims to understand the barriers to effective markets in MFWHM and explore ways that WFP Cash for Work interventions might be used to stimulate markets, alongside other approaches.

Key headlines

- Markets are critical for food security in Karnali. Households in the three study districts access markets for 50% of their rice needs but lack purchasing power, so they travel an average of 2 days' round trip to access lower priced roadhead markets. A kg of rice costing Rs 25 in the plains costs Rs 65 or more in mountain markets.
- Transport prices are by far the most significant determinant of food prices in the hills and mountains – as much as 60% in Mugu. Markets in the mountains are poorly linked to Nepalgunj meaning food price decreases in the plains are not necessarily passed on, and supply is erratic.
- Cash For Work has a significant but short term impact on local economies, stimulating markets and reducing migration; if used appropriately and at critical periods, it might have an exponential effect and form an important part of a broader food security strategy. Further research is ongoing on how CFW could be used to stimulate markets.
- The Karnali Highway development has increased food availability, reduced prices and price variability, but the price decrease has been less than expected – partially due to rising global food prices and the poor quality of the unsealed road. Ongoing research will explore the full range of causes.
- Road development can help address food insecurity but only in tandem with increased income opportunities, credit and market facilities. Road construction was cited by 25% of traders as the reason for opening their shop where they did.

Preliminary findings

The findings to date – which are relevant beyond Karnali – confirm that markets are critical for households and show that high transport costs/poor roads are by far the most significant factor in causing high food prices. Access to credit and transport syndicates may also play a smaller part in reducing access to food. Fieldwork is ongoing to i) identify the specific issues relating to transport such as syndicates, through a DFID-funded study, ii) generate quantitative data on the impact of Cash For Work on markets through a survey in the Far West and iii) further explore working hypotheses through interviews and focus group discussions in the study area. Fieldwork will be completed in November and the study will produce its final report in December 2009.

So far, addressing transport constraints would appear the priority on the supply side while research shows that complementary measures to increase purchasing power and demand are also necessary. Increasing livelihood opportunities through development of markets for local production would be important in the longer term to increase purchasing power and the demand which could sustain local food markets. Addressing the credit crunch – where predominantly small traders are unable to provide sufficient goods on credit – could also be important.

Part of the research project is looking at how WFP Cash For Work (CFW) projects might be used to stimulate markets. Preliminary research from WFP's CFW projects in the Far West shows that cash distributions are a major contributor to local economies. The effect is short-lived and replaces migration rather than expanding the local economy, but at a critical period may have a significant effect on the market. Sometimes disbursements are used to pay off debts which could ease the credit crunch. The ideal scenario would be one where CFW projects build infrastructure which supports local production (e.g. through irrigation), while stimulating food markets through cash injection into the local economy. Our research will look at the potential & risks of using CFW to stimulate poorly connected markets.



Households access half of their rice needs from markets

Markets are critical for food access in Karnali but households lack purchasing power. Households access half of their rice from markets, compared to 25-30% from their own production (rice is the preferred and most traded food grain, but other crops are important). They tend to visit their local market for small purchases and travel 1-2 days to a larger roadhead market for larger purchases where prices can be as much as 50% lower.

80% of households owe money, averaging NRs 39,000 of debt. A quarter of households borrow money regularly to buy food – while traders identify as a significant problem that too many people want to buy on credit.

Three-quarters of households identify high food prices or insufficient cash as the most important problem they face in accessing food. People therefore travel, usually by foot, to access cheaper food – an average of 2 days' round trip. For example, households in Seri VDC of Mugu walk 4 days' round trip to Nagma bazaar in Kalikot to access coarse rice at Rs 20 less per kg than in Mugu – amounting to a saving of Rs 1000 per bag of rice, a significant amount given that Mugu households surveyed spend an average of Rs 5300 per month on food.

Transport is the main problem affecting food traders in Karnali

63% of traders mention the high cost of transport as one of the main problems affecting their business, along with road blockages due to landslides (mentioned by 61% of traders). Bandhs are also an issue for over half of traders.

Most traders are from the district in which they have their business, and shops are small (3 people working in them on average). Shops selling food are generalist traders offering other household items. Larger shops with more wholesale business source from the larger roadhead markets (Nepalgunj, Surkhet, Bharta, Nagma (Kalikot), or Jumla) where prices are lower. Retailers source from local wholesalers. Most customers are local for retail shops. The small scale nature of traders makes them more vulnerable to shocks and more cautious about developing into new markets.

Traders in the study districts deal with uncertain supply as a normal part of doing business. Strategies include stockpiling goods in advance of the rainy season.

Food prices are determined by transport costs

A kilo of coarse rice – the most traded food grain – currently costs around Rs 25 in Nepalgunj, Rs 45 in Jumla and Rs 65 in Mugu. Transport costs by truck/tractor to Jumla and mule to Mugu explain most of the price difference (see Figure 1). Other factors are involved to a lesser extent, including transport cartels/syndicates and stock levels. High profit margins and monopoly behaviour do not appear to be significant, except possibly at source markets.

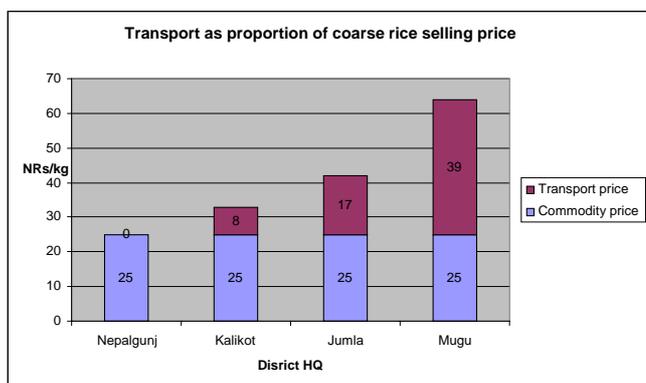


Figure 1: Transport makes up a major proportion of rice prices

Prices in the mountains are not strongly connected to those in Nepalgunj (see Figure 2). In Mugu, the wholesale price constitutes around 40% of the selling price, but the

price in Mugu can vary up to Rs 80/kg due to uncertainties in supply and transport costs.

The transport price varies widely and depends on season. Transport costs from Nepalgunj to Jumla typically increase by 30% in the rainy season. Despite their abolition, transport syndicates are reported still to play a part in inflating prices by 35% of traders, but 22% of traders say syndicates also ensure availability of transport. Mule/porter transport adds significantly to market prices away from roads – this mode of transport costs 50% more than truck transport for the equivalent travel time.

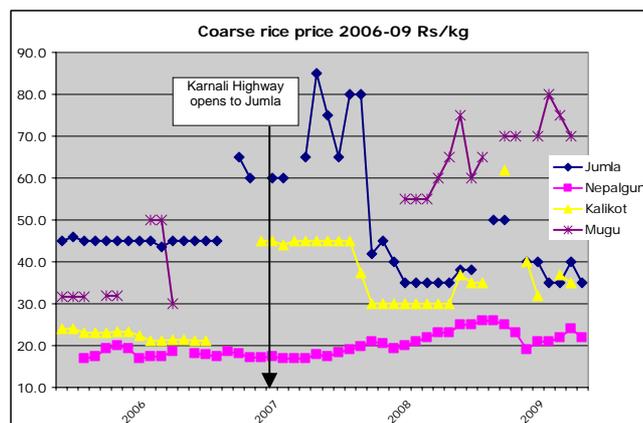


Figure 2: Rice prices in the mountains are highly variable and disconnected from those in the plains

The Karnali highway has increased food availability, reduced prices & supported livelihoods

The Karnali highway extension to Jumla in early 2007 increased food availability and reduced the price of coarse rice from around NRs 60 to 35 per kg. This was less than expected, partially due to rising global food prices, the still unreliable condition of the road or political events (before the road was opened, the price in Jumla had risen from NRs 45 in 2005). The full range of causes will be explored further.

Despite the opening of the unsealed track to Jumla, landslides block the road for many months of the year in Dailekh and Kalikot. Prices however vary less than before the road, showing markets are better connected.

Road construction was cited by 25% of traders as the reason for opening their shop where they did. Markets have grown where the Karnali highway has been extended – particularly Nagma (Kalikot) and Raralihi (Jumla). These markets offer lower prices with less traveling for Jumla and Mugu households who previously travelled further to markets in Kalikot, Achham or Bajura districts. Since the road opened, air freight to Mugu is used for high value goods only.

Household livelihood surveys show that the highway has increased both wage labour opportunities and rates, as well as the sale of household produce. Production is still affected by poor transport, low sale prices, production difficulties and poor information on prices. Half of farmers sell their produce at the farmgate and very little is exported out of the district, so they may not be realising the full income potential of their produce.

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