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Unlocking Local Economic Potential through Agribusiness Value Chain Strategies

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Abstract

Agriculture is a key part of Nepal's economy, employing about two-thirds of the population and playing a major role in GDP. However, inefficiencies in the agribusiness value chain—from production to market delivery—have limited its contribution to local economic development (LED). Despite its potential to boost rural livelihoods, there is limited research focused on Nepal's specific socio-economic and institutional challenges. Many studies miss key issues like weak local governance, poor infrastructure, and policy gaps. This study, based on literature review and secondary data, identifies major problems such as fragmented land, limited digital technology use, and poor market access. It highlights strategies like cooperative farming, better infrastructure, digital tools, and public-private partnerships as ways to improve value chains. The study also underlines the importance of local governments, guided by policies like the Local Government Operation Act 2074, in creating inclusive agribusiness systems. Overall, it shows how value chain improvements can support sustainable and inclusive LED in Nepal.

Key words: agribusiness, economic development, value chain, inclusive development

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Introduction

The government of Nepal's formulation of the Innovative Local Economic Development (ILED) Programme Operation Procedures, 2023, the guide outline a strategic framework aimed at fostering sustainable economic growth within local communities. This document details the operational guidelines for implementing ILED initiatives, including the identification and support of local businesses, promotion of entrepreneurship, and enhancement of community infrastructure. It emphasizes a participatory approach, encouraging collaboration among local governments, businesses, and community members to tailor solutions to specific local needs. Key components include funding mechanisms, capacity-building activities, monitoring and evaluation protocols, and strategies for leveraging local assets and resources to stimulate economic development and resilience (ILED, 2023).

The concept of local economic development is building a local area's economic potential is the aim of local economic development (LED), which aims to enhance everyone's quality of life and the region's economic prospects. It is a procedure where partners from the public, private, and non-governmental sectors collaborate to improve the environment for economic expansion and job creation. Today, a community's ability to adapt to the changing local, national, and global market economy determines its level of success (Goga, Murphy, and Fergus 2006). Moreover, WB (2006) highlighted, the process of enhancing the environment for economic growth and job prospects involves cooperation between public, private, and non-governmental entities. Communities are using strategically planned LED more and more to boost the local economy, enhance the investment climate, and raise the productivity and competitiveness of workers, entrepreneurs, and enterprises in the area.

According to CLEF (2024), a key component of developing local government is local economic development, or LED. It is a procedure that unites several local partners to collaborate in the extraction of resources for long-term, sustainable economic progress. Growing numbers of people view local economic development as a vital role of local government and a strategy to guarantee that regional and local authorities can sustainably

meet the most pressing needs of local residents. There isn't one strategy for LED; instead, strategies are based on regional demands and conditions.

In addition, LED fosters a supportive atmosphere where companies and other interested parties can collaborate to advance fair and balanced local economic development. Local governments can combat poverty, unemployment, and social deprivation by implementing pro-poor and inclusive LED programs. These programs can include tactics for encouraging youth employment, empowering marginalized and disadvantaged communities, providing support for skill development, and advancing gender equity and equality (CLGF, 2011).

Discussion of the importance of local economy development, Rai (2020), for the long-term prosperity and welfare of the community, the local government must be effective in raising incomes, creating wealth, creating jobs, and providing economic possibilities to the impoverished. Ultimately, the goal is to improve the quality of life for all. To alter current local circumstances and mindsets, a strategic plan for sustainable development is required. This plan must organize participatory procedures, empower stakeholders, and build capacity. The whole authority for the general development of a place, such as a municipality, has been given to local government by the 2015 New Constitution of Nepal.

The local economy and agribusiness value chain in Nepal are intricately linked, primarily driven by agriculture, which employs around 66% of the population and contributes about 27% to the GDP. The agribusiness value chain encompasses a range of activities from input supply, production, processing, and marketing to distribution. Key inputs include seeds, fertilizers, pesticides, and machinery, largely imported due to limited local manufacturing capacity. Farmers, the primary producers, are often organized into cooperatives to enhance their bargaining power and access to markets and resources (FAO, 2024). However, traditional agricultural practices and value chains have often limited the potential for economic growth and development in rural areas. Optimizing the agribusiness value chain presents a promising avenue for enhancing local economic development,

fostering sustainable growth, and improving the livelihoods of farmers and rural communities (Bhandari, 2024).

For instance, the Nepal Agricultural Market Development Programme (NAMDP) has focused on enhancing the competitiveness of Nepali agribusinesses by improving market access and promoting sustainable practices. Similar programs in other countries have demonstrated that strategic investments in value chains can lead to substantial economic benefits (USAID, 2015).

Agribusiness plays a vital role in promoting sustainable economic development by improving food security, reducing poverty, and fostering growth in rural areas. Sustainable management of agricultural businesses ensures the responsible use of natural resources while enhancing the efficiency and resilience of markets, agribusinesses, and rural communities (FAO, 2024). Gereffi, Humphrey, and Sturgeon (2005) provide a theoretical framework for analyzing global value chains (GVCs), highlighting governance structures that influence agribusiness development in Nepal. Their typology categorizes governance into five types—market, modular, relational, captive, and hierarchical—based on transaction complexity, modifiability of information, and supplier capabilities.

Nepal's agribusiness value chain has the potential to significantly boost agricultural output and competitiveness by improving commercialization, value chain management, and marketing strategies. Effective coordination among market actors can drive economic growth, poverty alleviation, and food security (Bhandari, 2024). Despite agriculture being a primary contributor to Nepal's GDP and employment, the sector struggles with underinvestment, with only 3.36% of the national budget for 2023–2024 allocated to agriculture. This inadequate funding has resulted in stagnating production and yields, further hindered by the lack of commercialization and mechanization (Mishra, 2024; Chaudhary & Mishra, 2021).

In terms of local economic development, Rai (2023) highlights that Nepal's government has empowered local authorities to leverage natural resources for economic growth. However, maximizing these resources requires thorough assessments of social, economic, and material needs within communities. Extensive research and analysis are

crucial in this regard. The FAO (2014) underscores the importance of agribusiness value chain optimization, noting that it encompasses production, processing, distribution, and marketing, ultimately leading to increased productivity, market access, and higher farmer incomes.

Value chain optimization involves identifying and addressing inefficiencies at every stage of the chain, from production to marketing. Investments in infrastructure, improved post-harvest handling, and market linkages can significantly enhance local economic development by increasing agribusiness competitiveness and job creation (World Bank, 2018). Porter (1985) introduced the value chain concept, illustrating how businesses can achieve competitive advantage through strategic optimization. Bhandari (2024) further emphasizes that streamlining agribusiness supply chains enhances coordination, reduces lead times, and improves market responsiveness.

Trienekens (2011) discusses the transformative impacts of value chain optimization, highlighting its role in improving product quality, reducing costs, and increasing profitability for farmers. In perishable goods markets, optimized value chains can minimize post-harvest losses and improve product distribution. Additionally, Bhandari (2024) explores the role of digital technologies such as the Internet of Things (IoT) and big data analytics in value chain efficiency, enabling better decision-making and resource management.

Agribusiness value chain optimization is key to local economic development, fostering employment, increasing farmer incomes, and enhancing growth opportunities. Streamlining processes reduces inefficiencies, minimizes post-harvest losses, and improves product quality, ultimately raising farmers' earnings and boosting economic activity (Porter, 1985; Trienekens, 2011). Additionally, improved value chain coordination creates new business opportunities in logistics, quality control, and technology services, further strengthening Nepal's agribusiness sector (Bhandari, 2024).

Integrating modern technologies enhances market access and enables farmers to meet international standards, increasing demand for local produce and improving revenues. IoT, data analytics, and blockchain technology facilitate better traceability,

supply chain transparency, and resource management, supporting sustainable farming practices and environmental conservation (Gauchan, 2018). Furthermore, optimizing agribusiness value chains ensures food security, stabilizes food prices, and maintains supply consistency, benefiting both local economies and communities.

Regarding local government budgeting, Bhattari (2024) notes that education, economic affairs, and public services accounted for 76.5% of total expenditures in 2020–21 and 75.6% in 2021–22. Devkota (2023) highlights that municipal funds have been allocated toward constituency infrastructure development under leadership initiatives, resembling federal and provincial budget strategies. However, planning and implementation guidelines are needed to assess economic development policies and budgeting frameworks, ensuring local governments effectively support agribusiness growth.

Nepal's agribusiness sector faces multiple challenges, including fragmented landholdings, inadequate infrastructure, limited market access, and insufficient technological adoption (GC & Hall, 2020). These issues hinder farmers from maximizing productivity and profitability while also causing inefficiencies in the value chain. The lack of coordination among stakeholders—farmers, processors, distributors, and retailers—exacerbates these problems, leading to increased costs and reduced competitiveness of agricultural products (Bhandari, 2024). Additionally, limited access to modern technology and best practices further compounds these inefficiencies, preventing farmers from optimizing productivity and income (FAO, 2014). Addressing these challenges through value chain optimization and improved infrastructure is essential for enhancing the sector's contribution to local economic development.

Despite agriculture's vital role in Nepal's economy, research on agribusiness value chains is limited. Key gaps include the lack of context-specific studies, insufficient sustainability analysis, and inadequate exploration of women and marginalized groups' roles. Additionally, public-private partnerships and economic impact assessments remain under-researched. Filling these gaps is essential for effective policies that enhance agribusiness and support sustainable local economic development. This research aims to

analyze how agribusiness value chain optimization can drive sustainable local economic development in Nepal, to evaluate how legal frameworks like the Local Government Operation Act 2074 and local government policies influence agribusiness development and LED and to fill the existing research void by providing a context-specific analysis of Nepal's agribusiness sector and proposing inclusive, sustainable value chain solutions.

Methodology

The study's methodology included a thorough evaluation of the literature. A thorough search and analysis of pertinent articles from important databases and sources was part of the review process. Finding literature that addressed the agriculture value chain within the framework of the local economic development sector was the main goal.

The review started by using general terms like "value chain", "agribusiness", and "local economic development" to find a wide variety of publications on the topic. This initial search helped lay the groundwork for understanding the key concepts and common methods used to study agribusiness value chains around the world. Later on, the review focused on more specific sources that looked at Nepal's agricultural progress and the condition of its value chain systems.

Relevant secondary data was gathered from organizations and agencies involved in agricultural and rural development initiatives in Nepal. This included published reports, statistical data, and academic articles that offered practical insights into the obstacles, opportunities, and efforts to enhance agribusiness value chains in the country.

A thorough and meticulous approach was taken to select, categorize, and study the literature related to Nepal's agribusiness value chains. This process was aimed at extracting important information. By doing so, researchers were able to pinpoint significant shortcomings in policies, institutions, and operations that are impeding the progress and development of Nepal's agricultural businesses. The combined results of this review were then utilized to create a detailed problem statement and specify the key areas of focus for further research.

Result and Discussion

In the context of the impact of agribusiness, optimization efforts have facilitated the creation of new jobs within the agribusiness sector, particularly in processing, logistics, and marketing activities. This employment growth contributes to reduced unemployment rates and improved socio-economic conditions in rural communities (Trienekens, 2011). As the same way, implementation of value chain optimization strategies has led to a measurable increase in income levels among participating farmers and agribusinesses. This income growth stimulates local economies through increased purchasing power and spending on goods and services (Gauchan, 2020).

Additionally, enhanced coordination and efficiency in the value chain have expanded market access for local agricultural products, including access to higher-value markets both domestically and internationally. This expansion contributes to increased revenues and profitability for farmers and agribusinesses (Mishra, 2024). Furthermore, strengthened market linkages have enabled farmers to explore export opportunities, thereby diversifying revenue streams and reducing dependency on local markets alone (Bhandari, 2024). In the same way, adoption of modern agricultural technologies and practices has improved productivity and efficiency along the value chain. This includes the use of digital tools for farm management, real-time market information, and traceability systems, which enhance decision-making and resource allocation.

However, investments in rural infrastructure, such as roads, storage facilities, and processing units, have bolstered the capacity of agribusinesses to handle larger volumes of produce and meet quality standards required by markets (Bhandari, 2024). Discussion on the policy support, findings underscore the importance of supportive policies that promote value chain integration, infrastructure development, and technology adoption. Government interventions aimed at improving access to finance, training, and market information are crucial for sustaining and scaling up these initiatives (Porter, 1985). For the inclusive growth, Strategies should prioritize inclusivity, ensuring that smallholder farmers and marginalized communities benefit equitably from economic development initiatives. This requires targeted support and capacity-building efforts tailored to local contexts.

According to Devkota (2023), funds have been allocated by local governments in a reasonable manner, with priority given to areas including roads, drinking water, irrigation, livestock, agriculture, health, and cooperatives. Significant changes have taken place in the social, economic, and physical domains. Both rural and urban areas have witnessed the growth of small-scale enterprises and businesses. The funding allotted is concentrated on regional economic growth. Bhandari, (2024) argues that local governments have a lot of provisions and can support the adoption of innovative technologies in agriculture, such as precision farming tools, mobile-based advisory services, and automated equipment. Subsidies, grants, and demonstration projects can incentivize farmers to adopt these technologies.

In the context of developing and implementing policies that support agribusiness activities, such as land use regulations, agricultural subsidies, and quality standards, can create a conducive environment for agribusinesses. Local governments can also streamline regulatory processes to reduce bureaucratic hurdles for farmers and agribusiness entrepreneurs (Porter, 1985). Trienekens, (2011) that local governments can foster partnerships between the public sector, private sector, and civil society to leverage resources, expertise, and technology. These collaborations can lead to innovative solutions and more efficient value chains. Mishra (2023) analyzes that, over the past ten years, Nepal's agriculture industry has experienced substantial changes due to the adoption of new technology, the establishment of supportive government policies, and a move from subsistence to commercial farming. But even with these encouraging advancements, the industry still faces a number of obstacles and problems. This essay will go over a few of the roadblocks preventing Nepal's agriculture industry from reaching its full potential. Local governments have the potential to greatly improve the efficiency and efficacy of agribusiness value chains by focusing on four crucial areas. This might result in better local economic development, higher incomes, and improved living conditions for rural populations.

Discussion on the managerial part of agribusiness sector development, according to Bishwakarma (2022), information shared during the federal agriculture allocation

discussion, seven provinces received larger allocations in FY 2018–19 than 753 local municipalities. KIs stated that the first stage of transition was the reason for the reduced allocation at local governments.

The development of the local economy in Nepal is closely tied to the agribusiness sector, which is fundamental to the livelihoods of the majority of the population. This sector is not only the backbone of the rural economy but also plays a critical role in overall economic development. Understanding the connections between local economy development and agribusiness in Nepal involves examining key components such as employment, income generation, value addition, market access, and policy support. Furthermore, discussion, Bhandari (2024) argues wider economic growth may result from the robust growth relationship between the farm and non-farm sectors. When there are a lot of small farms dominating the agricultural industry, the growth-linkage effect is strongest.

As a result, the development of the local economy in Nepal is intricately linked to the growth and modernization of the agribusiness sector. Employment and income generation, value addition, market access, financial services, government support, and capacity building are all critical components that drive this relationship. By addressing challenges and leveraging opportunities in these areas, Nepal can achieve sustainable economic growth and improved livelihoods for its population.

According to an economic survey, twenty years ago, the GDP contributions of the agricultural, industrial, and service sectors were 37.4%, 17.5%, and 45.1%, respectively. In the current fiscal year, these contributions are expected to be 23.9 percent, 14.3%, and 61.8 percent, respectively. This demonstrates how the economy's structure has evolved and how Nepal's economy is progressively moving from an agrarian to a service economy (MoF, 2022).

The indicated shift in Nepal's economy from agriculture towards services over the past twenty years highlights a significant structural transformation. This transition from an agrarian to a service-oriented economy suggests various implications for local economic development (LED). Firstly, it points to the diversification of employment opportunities,

which can reduce dependence on agriculture and provide more stable and varied job options. Urbanization and infrastructure development are likely to accelerate, requiring investments in education, healthcare, and transportation to support growing urban populations.

The alignment linking agribusiness value chain can play a crucial role in this economic transition by enhancing the productivity and profitability of the agricultural sector, even as its relative GDP contribution declines. By integrating modern technologies and practices, agribusiness can increase efficiency, reduce post-harvest losses, and improve product quality, making agriculture more competitive and sustainable. Strengthening linkages between farmers, processors, and markets ensures that agricultural products can reach broader markets, both domestic and international, thus increasing farmers' incomes and creating jobs in rural areas. Moreover, value addition through processing and packaging can shift a portion of agricultural activities into the industrial sector, contributing to industrial growth. Agribusiness also supports the service sector by necessitating improved logistics, transportation, and financial services. Investments in agribusiness can foster rural development, reduce poverty, and promote inclusive growth by providing opportunities for women and marginalized communities to participate in the economic development process. Thus, the agribusiness value chain is instrumental in maintaining a robust agricultural foundation while supporting the broader economic shift towards services, ensuring balanced and sustainable local economic development.

Conclusion

This study underscores the critical role of agribusiness value chain optimization in fostering local economic development (LED) in Nepal. By identifying and addressing key inefficiencies such as fragmented landholdings, poor infrastructure, limited market access, and low technological adoption, the agribusiness sector can be transformed into a more productive, inclusive, and sustainable driver of economic growth. The findings reveal that enhancing coordination among value chain actors, investing in rural infrastructure, and promoting digital tools can significantly increase agricultural productivity, generate employment, and improve farmers' incomes. Furthermore, local governments, empowered

by Nepal's federal structure and legal frameworks such as the Local Government Operation Act 2074, are well-positioned to implement targeted LED strategies through policy reform, capacity building, and public-private collaboration. Ultimately, the optimization of agribusiness value chains presents a strategic opportunity to revitalize rural economies, promote inclusive development, and support Nepal's broader transition from a subsistence-based to a more diversified and market-oriented economy.

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