

# **TEA PRODUCTION IN ILAM AND MARKET MECHANISM**

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**By**

**NARENDRA KATUWAL**

**PhD Regd. No.: 2065-26**

**TU, Regd. No.: 2619 - 81**

**Tribhuvan University**

**Kathmandu, Nepal**

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## RECOMMENDATION LETTER

We certify that the dissertation entitled **Tea Production in Ilam and Market Mechanism**, submitted to the Dean's office for the award of a PhD Degree in Rural Development has been carried out by Mr. Narendra Katuwal under my supervision.

To the best of my knowledge, the work is original and has not been previously submitted for any other degree. He has fulfilled all the requirements laid down by Tribhuvan University for the award of a PhD Degree. I recommend approval and acceptance of the PhD Degree in Rural Development award.

Dissertation Committee

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Prof. Dr. Prem Sharma

Supervisor

---

Prof. Dr. Neelam Kumar Sharma

Co-Supervisor

Date:– June 17, 2022



## DECLARATIONS

I, hereby, declare that this dissertation entitled **Tea Production in Ilam and Market mechanism** which I have submitted to the office of the Dean, Faculty of Humanities and Social Sciences, Tribhuvan University (TU), is entirely my original work prepared under the supervision of my supervisor. I have made due acknowledgments of all ideas and information borrowed from different sources in the course of writing this dissertation. The results of this dissertation have not been presented or submitted anywhere else for the award of my degree for any purpose. No part of the content of this dissertation has ever been published for my other purpose. I am solely responsible if any evidence is found against my declaration.

Narendra Katuwal

Date: January 2023

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Narendra Katuwal

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## ABSTRACT

Tea plantation in Nepal started in the early 19<sup>th</sup> century under the Rana period and was initiated with the establishment of the Ilam Tea Estate in 1863. The quality of Ilam tea is one of the best in the world; however, the quantity is still a challenge. Farmers are encouraged to expand their tea farms, use organic production methods, and join cooperatives to reinforce the system in order to boost the quality and quantity of tea.

Tea yield in Nepal is very low in comparison to other countries in Asia. In Ilam, the concern of small tea farmers is to increase the quantity and get higher prices for the excellent quality green leaves they produce in the current market situation. As a significant source of foreign exchange and a key employment sector in Ilam, it is imperative to examine the factors responsible for the development of this sector. So, in this context, this research attempts to find out the factors that influence farmers in the Ilam district to participate in organic conversion, join cooperative associations, extend tea farming, and find the limiting factors and constraints in tea production and market mechanism to fulfill the research gap.

The following questions are addressed by the research: What is the situation with the district of Ilam's green leaf tea producers? What are the motivational factors for tea farmers engaged in organic tea production and expanding tea farming? What are the influencing factors of smooth market mechanism for tea production?

This study's main goals are to examine tea production and market mechanisms, especially in the Ilam district, and to identify the variables that influence the expansion and conversion of organic tea growing. Identifying some major prospects and constraints is another objective. Furthermore, this study is carried out to uncover tea-related rural tourism prospects in the study area.

The research design of this study is analytical and descriptive. Qualitative data were analyzed descriptively, and quantitative data were analyzed using Statistics.

Fieldwork was carried out to collect qualitative and quantitative data from the selected area.

There are three extension programs in Ilam that provide counseling and extension service to the farmers in their command areas that are working under Nepal Tea and Coffee Development Board. They are Fikkal Tea Extension Program, Jasbire Tea Extension Program, and Mangalbare Tea Extension Program. This study selected two clusters: Mangalbare and Jasbire Tea Extension Programs. Face-to-face interviews were done to gather all relevant information from small farmers and other sampled people during the survey, which took place from January 2014 to February 2014. Different sampling procedures, such as systematic, judgmental, and convenient processes, were utilized to choose two clusters with a total sample of 250 respondent farmers, including tea cooperative members and non-members. This way, 298 people were interviewed, including farmers, tea experts, and small tea factory holders, were interviewed. Two focus group discussions (FGDs) were also held for data collection and verification.

The extension of the tea area was 1.5 times exactly in the study period. The plantation area was extended from 4,189 ha to 5920 ha, with an increase of 1,731 ha from 2011/12 to 2013/14. The production of green leaves increased from 1,804,590 kg to 5,096,030 kg, an increase of 3,291,440 kg.

It was found that there are five different motivational factors for the conversion to organic farming: environmental awareness, bright market prospects, economic benefits, health consciousness, and sustainability in production. Another



additional factor is how organic farming has created job opportunities for the female population of the study area.

The result showed that access to credit, off-farm employment, harvested quantity, and cooperative membership positively influenced the extension of tea farming. At the same time, while education level and the farmers' main occupation did not influence it.

The study aims to identify and analyze the challenges that smallholder farmers face in tea farming. Those challenges were mainly shortage of tea factories, unpredictable weather, global climate change, sub-optimal delivery of fertilizers, and difficulties obtaining credits from microfinance and commercial banks.

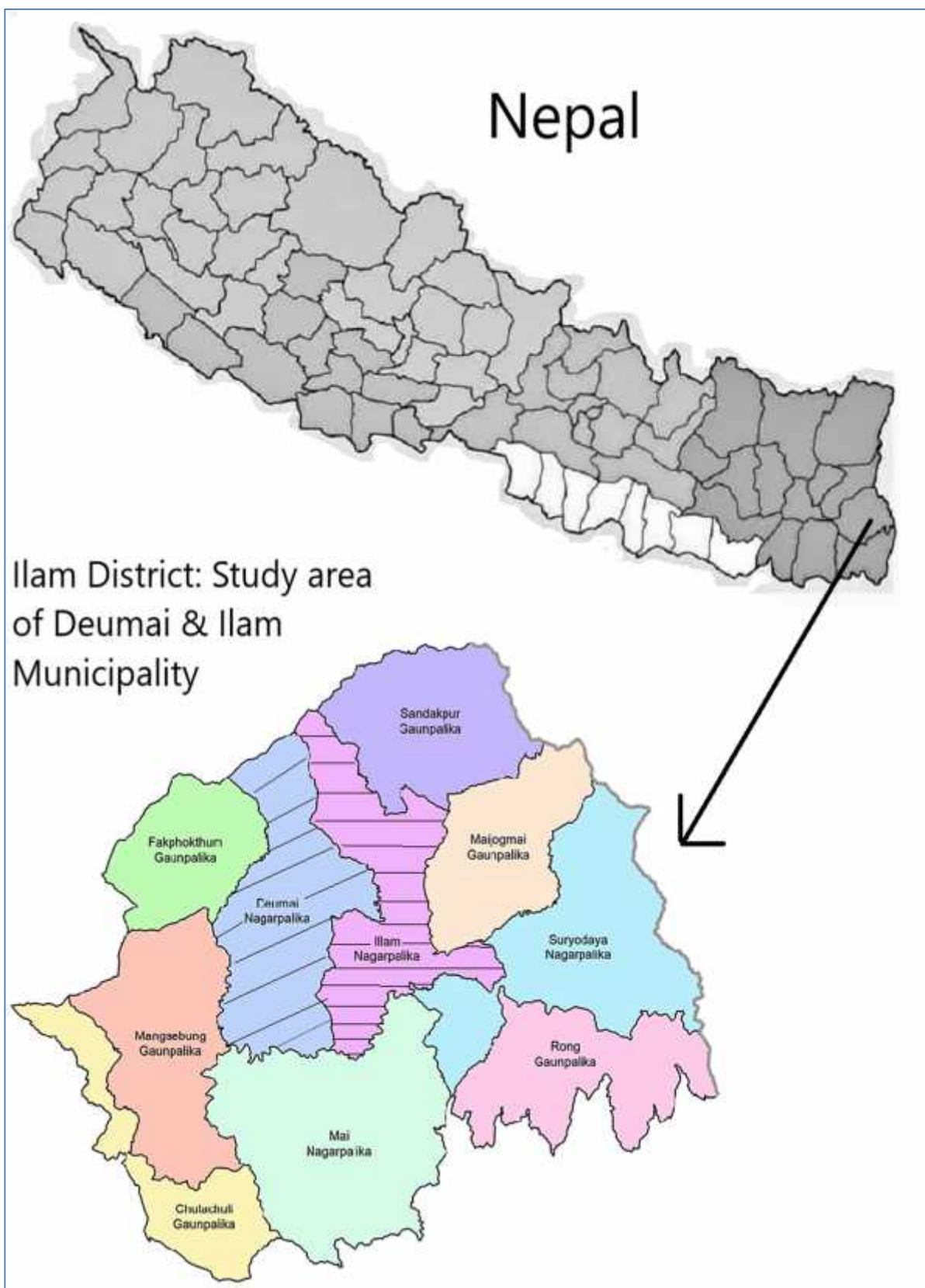
The study has found that small farmers sell their green tea leaves mainly to locally established tea processing units through different channels. These units have a vital role in determining the price of green tea leaves so that small farmers gain a regular income and ensure local employment. However, there is no organized system for market mechanisms in Nepal. There are obstacles to the market mechanism for selling the green tea leaves produced by the small tea farmers of Ilam. The small tea farmers relied on big tea estates, Bought Leaf Factories, and agents for selling their tea leaves. The oligopsony of Big Tea Estates and Bought Leaf's Factories (BLFs) of Ilam influenced the fixation of the price of green tea leaves. This system of few buyers and multiple sellers tilts the balance of profit and benefits in favor of buyers. Most small tea growers in Ilam are dissatisfied with such a market mechanism for trading green tea leaves.

Based on the findings, the study suggests raising farmer knowledge about joining cooperatives, paying them on time, and delivering loans according to contract.

Making tea factories and infrastructures readily available are advised to minimize costs and maximize benefits.

There is also potential for expansion of tea plantation area in Nepal, which indicates that there is a high prospect for tea sector development. Small farmers are the major orthodox tea leaf producers in Ilam. The major problems faced by the Nepalese orthodox tea industry should be explored for a better understanding of its development prospects. Organic green leaf was paid higher than conventional, but some farmers were unsatisfied with organic farming due to low production. However, organic farming fetched relatively higher net benefits to farmers during its lifespan. Due to the lack of knowledge about costing methods, farmers could not calculate the cost of production (COP) accurately. They were compelled to sell the green tea leaves even at a price lesser than their production cost due to the lack of a fixed method of the factory buying price. Small farmers' tea cultivation has aided the growth and development of Ilam's economy, both directly and indirectly. Thus, support from all sides is needed to keep this socioeconomic revolution going.

### LOCATION OF STUDY AREA



Ilam District: Study area  
of Deumai & Ilam  
Municipality

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## ACRONYMS / ABBREVIATIONS

ADB/N:	Agricultural Development Bank of Nepal
AEC:	Agro Enterprise Center
BLF:	Bought leaf factory
CBS:	Central Bureau of Statistics
CoC:	Code of Conduct
CTC:	Crush, Tear, and Curl
FAO:	Food and Agriculture Organization
GDP :	Gross Domestic Production
FNCCI:	Federation of Nepal Chamber of Commerce and Industry
GDP:	Gross Domestic Product
GNP:	Gross National Product
Ha:	Hectare
HOTPA:	Himalayan Orthodox Tea Producers Association
HIMCOOP:	Himalayan Tea Producers Cooperative
ITC:	International Trade Centre
Kg:	Kilogram
MoA:	Ministry of Agriculture
MoAC:	Ministry of Agriculture and Cooperatives
MoF:	Ministry of Finance
MoI:	Ministry of Industry
Mt:	Metric Ton
NCAER:	National Council of Applied Economic Research
NGOs:	Non-Governmental Organizations
NPK:	Symbols for nitrogen (N), phosphorus (P), and potassium (K).

NPR:	Nepalese Rupees
NTCDB:	Nepal Tea and Coffee Development Board
NTDC:	Nepal Tea Development Corporation
ODA:	Overseas Development Administration
OGS:	Out Growers Scheme
SAWTEE:	South Asia Watch on Trade, Economics, and Environment
SNV/N:	Netherlands Development Organization Nepal
TEPC:	Trade and Export Promotion Centre
USD:	United States Dollar
VDCs:	Village Development Committee