

**Medium Term Expenditure Framework
(2002/3-2004/5)
Agriculture Sector**

Nepal Development Forum-2002

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Ministry of Agriculture and Cooperatives

FOR NEPAL DEVELOPMENT FORUM (2002)

I BACKGROUND

Agriculture faces a tremendous challenge of feeding some 23.2 million people in Nepal and of being instrumental to their prosperity. And yet, it has remained basically subsistence-oriented with lower productivity in the region. Rapid population growth amidst a scarce supply of fertile land has led to intense pressure on the natural resources. As a result, encroachment in the marginal lands in the hills and mountains for agricultural use and conversion of prime agricultural land to other non-agricultural uses in the plains have started signaling grave environmental repercussions. The rapidly building pressure among population, land and productivity, and others, has been among the factors underlying the social tension.

That agriculture sector forms the sine qua non for overall development of the country is evident from the poverty and occupational pattern in Nepal. With 80 percent of population (labor force) engaged in agriculture, 86 percent people living in rural areas and low GDP per capita (US\$ 242), the agriculture sector is pivotal for any attempt to increase incomes, alleviate widespread poverty and uplift living standards of Nepalese people. The progress of this sector will determine our economic future. Agriculture sector, therefore, validly calls for priority attention so that it is rapidly transformed into a modern agriculture with sustainable high productivity. It is against this backdrop that agriculture has remained a sector of high priority in Nepal, a Twenty Year Agriculture Perspective Plan (APP) being at the core of strategy for the development of this sector. Already in the fifth year of its implementation, APP is facing capital constraints (the 9th Plan MTR has reported that only half of the projected allocation being made available). To make the matters worse, even the allocated resources for the plan has not rightly addressed the needs and priorities of farmers as envisaged in the plan. The phenomenon of thin spread of agricultural investment for maintaining status quo and providing basic extension services to all categories of farmers continues which APP intended to rectify through intensification of investment over a selected priority areas.

APP has provided a vision of agriculture development and its strategy stresses key roles of technology and infrastructure. Technological innovations, a shift to high value crops, and value-added processing have been identified as the key elements of propulsive growth in agriculture. It intends to prioritize investment in production pocket areas so as to transform subsistence agriculture to commercial one. APP strategy has provided priorities, policies, investments and organizations responsible for implementation of strategy. However, it seems that there is an immediate need of redesigning APP plan into

medium plans without disrupting the themes and perspectives of it. Restructuring of resource allocation and programs in line to APP themes need to be improved. To this effect, Medium Term Expenditure Framework is believed to bring a major breakthrough towards the right execution of APP. Based on the experiences of successful implementation of MTEF in other countries, the adoption of this tool of strategic planning with prioritized objectives will allow the resources to be used in most productive areas to achieve the national goal of poverty reduction.

II CURRENT AGRICULTURAL OUTLOOK

2.1 Agricultural Growth Performance

Despite cumulative efforts made in the past, the growth rate of agriculture has remained poor. Investment in this sector has increased, slightly though, over the decades. Nevertheless, agricultural production registered a meager increase. Agriculture growth rate barely kept pace with population growth rate, and per capita gains were insignificant. MTR of 9th plan (last 3 years) has reported a growth rate of agricultural GDP at 3.2 percent per annum as against the targeted 4.00 percent.

Commodity-wise, the annual growth rate was only achieved in fisheries (12.19 percent as against 8.78 targeted). High value crops such as citrus, apple, mango, vegetable and tea have shown good growth. The performance of livestock sub-sector has been strong with increased meat, milk, and egg production. In addition, 10 years data of agriculture, do not present a very discouraging picture. The production of cereal crops in last 10 years (from 1990/91 to 1999/00) has increased by 1.15 million tons. The increase in rice productivity in recent years is notable. Although the first half of the 1990's experienced a negative (-0.7 percent) growth in agricultural GDP, it registered a slightly positive growth (+0.6 percent) in the second half.

However, the potentiality has not been harnessed to the optimum extent of different crops and livestock enterprises as projected in APP. APP implementation status reveals that the production targets are not met because, among others, investment requirement for agriculture sector has not been met by a large margin. Investment requirements for agricultural growth has been projected by APP at US\$ 120 million per year of which US\$ 81 million (NRs 6400 million) is for the activities that come under MOAC mandate. However, the available funds for this sector are a mere less than half of it.

The proposal for the forthcoming 10th plan has estimated an increase of 500 thousand tons of food grains for the first 3 years by maintaining an average productivity level of 2.5 tons/ha..

2.2 Reform Initiatives

2.2.1 Delivery of Services: Institutions and Programme Orientation

MOAC, with the manpower strength of over 10,000 staff, provides extension and research services all over the country. The existing organizational structure of MOAC is presented in annex 1. Partnership and contract-out of extension services to NGOs and local VDC in selected districts are under way. The successes of these approaches are yet to be evaluated. Downsizing of staff and transfer of grassroots components of government organizations to local bodies are in process for execution as per recommendation of Public Expenditure Review Commission. The implementation responsibilities of district level extension activities will be transferred to local government agencies in due course of time in line with the legislation for decentralization. Restructuring of extension and research organizations is in process.

Food security is the main concern especially in hills and among disadvantaged sections of population in the Terai. Earlier programs were thinly spread and were not intensively organized. With the initiative and support from AREP (WB financed), large number of small projects to be concentrated in identified pockets have been developed since the current fiscal year. Reorientation and restructuring of regular programs are also in process.

2.2.2 Policy Measures: Towards Markets and Partnership

Listed below are some major breakthroughs in policy matters in recent times:

Inputs

- Deregulation of fertilizer trade and distribution.
- Monopolized seed business of AIC is in the process of privatization.
- Transportation subsidy of food grains up to motor head has been removed

Marketing

- Marketing centers have been developed
- Market environment has been being liberalized

Research & Development

- National Agricultural Research Development Fund (NARDF) has been established as initiation of competitive grant system in research and development

Extension

- Modernization of extension services through the initiation of partnership and contract-out with private service providers.
- Initiation of privatization of veterinary services and establishment of revolving funds in partnership with farmers' group.

III. KEY ISSUES/CHALLENGES

Agriculture is complex in Nepal. The challenges in providing more precisely suitable and sophisticated services in different production environments make it increasingly difficult for an extension service to stay relevant to farmers' needs. Some of these issues need additional financial support while the others are to be managed by restructuring the existing programs and activities. By and large, the following issues are of crucial significance:

Marketing

- Inadequate investment in infrastructure and post production activities
- Inadequate marketing services for agricultural produce in rural/ urban areas, and market information
- Uneconomical scale of commercial production for both internal and external markets.
- Competitive disadvantage with respect to neighboring countries' products (due to inequalities in subsidy)

Resource Utilization

- Sub-optimal utilization of Irrigation facilities.
- Under utilization of forest, and pastureland.

Technology

- Limited access of the poor and small farmers to technology
- Agricultural education not matched with farmers' needs, priorities and/or market demand
- Small land holding with high cost of production.
- Subsistence farming with low productivity
- Limited targeting to disadvantaged groups

Policy

- Weak capacity for planning and policy analysis.
- Quality control and regulatory mechanism of seeds and fertilizer are not properly developed.
- Weak linkage among the agencies responsible for agriculture production, agro industry, and trade.

Monitoring

- Inadequate/weak participatory monitoring and evaluation system.

Institution

- Institutional set-up not rationalized to be capable of dealing with new challenges emerging in the context of new strategies of commercialization and agribusiness promotion through marketing services and enterprise development.

Majority of rural farmers has so far not been reached out. Since the economy of the country obviously rests on the yoke of small farmers, there is a compelling need of bringing them into the main stream of agriculture development so as to achieve the national goal of *poverty alleviation*. Categorically, food security, and income generation for poverty alleviation are to be achieved simultaneously for rapid development. There is a dire need of shifting government role from implementation to a facilitation role with a mandate of policy and regulatory functions. This demands for partnership and contracting out many of the current activities from the central government to CBOs/NGOs and private service providers.

The early initiations of the experiments of partnership and contract-out approach recently initiated in ongoing projects such as AREP (WB financed) and CDP (ADB financed) are quite encouraging. They need to be evaluated and, if found effective, expanded in areas where private/NGO sectors have relative practical edge to operate. This implies rightsizing of the staff and organization within the government and gradually stepping to partnership with private sectors and NGOs and devolution of certain activities to DDC.

We are at the crossroads to select the right path to our goal. There is a need of restructuring research and extension organizations so that they bear increased accountability to farmers and develop capability of converting generic into location specific knowledge. Lesson learned from WB experiences in developing countries has clearly revealed the focus areas of improvement such as; farmers involvement, the need of national policies, sustainability, evolution over time by keeping public extension work at the minimum, and implementation role to be changed from the public to the private sector. It is a therefore, right time to move towards sharing the successful experiences of others in agriculture rather than indulging more on experimentation.

IV. STRATEGIC PLANNING FOR REFORMS/ IMPROVEMENT

4.1 The Framework: Medium Term Expenditure Framework (2002/23 – 2004/05)

MTEF process provides an opportunity to accommodate objective based prioritized activities, which are important, and responsive to the problems, and cost-effective with better performance. It has facilitated to develop a transparent and medium term strategic plan with small number of clearly articulated objectives, activities, outputs and costs. At a time when we have to right-align APP programs in tune with its perspective, MTEF process could be an effective tool for this purpose. Hence, MTEF principles and tools for preparing strategic plans were taken as guidelines for preparing objective- oriented activities with priorities based on available resources (ceilings of NPC).

4.2 Agriculture Sectoral Strategy

4.2.1 National Goal

Poverty alleviation

4.2.2 Vision of MOAC

Broad-based sustainable agriculture development

4.2.3 Mission Statement

To facilitate modernization of agriculture for enhancing productivity, empowerment of the farmers for raising socio-economic well-being and promotion of agribusiness in an integrated and sustainable way.

4.2.4 Sectoral Objectives

1. To increase agriculture production, productivity, and incomes for food security through sustainable agriculture development practices
2. To develop and adopt need based appropriate technology
3. To expand employment opportunities for the numerous small farmers and landless agricultural workers

4.3 Strategies of MOAC in MTEF

Increasing productivity (objective-1)

- Crop intensification and diversification, and production of quality seed in farmers field
- BUP(PC/PS) approach for Projectization: Qualitative improvement in bottom up process (participatory need assessment and program development) in the earlier pocket package areas.
- Differentiated extension methods for commercial (advisory service by SMSs) and subsistence (by JT/JTAs and Leader Farmers) farmers
- Efficient information services to farmers on marketing and trade through development of quality database
- Market management and infrastructure development (such as market shed and cold storage)
- Market-led extension for high comparative advantaged enterprises and for import substituting ones.
- Human Resource Management: Staff and farmers training for increasing efficiency
- Cooperatization and use of cooperative strength
- Partnership and collaborative relationship between extension service providers (CBOs/NGOs/Private Sectors) and government agency

- Contracting out Extension: CBOs/NGOs, VAW/VAHW/ AA, and Private Sector: Pilot testing in the following areas for contracting out with CBOs/NGOs and private sectors
 - ◆ Group Formation and Social Mobilization
 - ◆ Farmers to Farmers Diffusion of successful practices
 - ◆ Bee Keeping
 - ◆ Sericulture
 - ◆ Off season Vegetables in some parts of Nepal
 - ◆ Remote areas of hills where the extension services are not accessible
 - ◆ Meat and milk products
- Decentralization: centrally carried out functions gradually shifting to districts after their capacity building in planning, implementation, and evaluation.
- Introduction of double track management and development of potential farms/stations
 - as resource centers
- Agricultural Legislation to provide legal status to groups formed by DADO /DOLS and quality control of inputs supplied by private sector, also develop and update Food, Contact Farming, and Cooperative Legislation
- Strengthening food quality control infrastructure in line with WTO
- Strengthening the capacity of planning and policy analysis of MOAC
- Inter-ministries collaboration and commitment for poverty alleviation programming through MOU

Need-based research (objective-2)

- Research oriented to farmers' problem (Major parts of research funds should be used in outreach/adaptive research in APP defined ecological zones)
- Ag-ecological zonation to harness ecological-diversity
- Natural Resource Management: Sustainable soil and water management practices and organic farming, conservation of bio-diversity, IPM, IPN, pastureland, land use planning.

Targeting small farmers (objective-3)

- Utilization of VAW/AA for enterprise development in low cost and rain-fed agriculture crops and small animals for poverty alleviation.
- Equity consideration in extension service (Poverty alleviation programmes where participation of poor and female farmers are ensured)
- Cooperatization and use of cooperative strength

4.4 Linkage with Approach to the Tenth Plan and I-PRSP

MTEF has been prepared in line with the guidelines developed by NPC and the targets set by different sub-sectors of MOAC for the Tenth Plan in order to reduce poverty level from the present 38 percent to 30 percent by 2006. In the process, the activities identified in I-PRSP, which were directly concerned with MOAC mandate, were picked up and included in strategic planning. A special project for targeting to small farmers is also proposed so as to achieve the national goal.

4.5 Review of On-Going Activities and Projects/Past performance

A brief review was made of existing programmes and projects so as to ascertain their logical coherence to the newly enunciated strategic thrust. The findings have been presented in the following sections:

4.5.1 General Observation

Following deficiencies were observed.

- Most projects were designed on the basis of technical potentiality; but the beneficiaries were not involved properly.
- Many and dissimilar projects in most districts which are not prioritized sectorally.
- Projects to address the present challenges like marketing and environment did not receive due level of priority.
- Inadequate knowledge and skills in project preparation among district staff
- Running costs for individual project were not included
- Projects cost and benefit calculations were based on haphazard guesses in absence of definite standard norms.
- Implementation of projectization approach without verification through pilot testing was not a wise decision.

4.5.2 Programme/Activity Specific Diagnosis and Prescriptions

The least effective activities and programs identified during review are enumerated in the following table. The table also contains suggestions for removal or improvement as the case may be.

Activities/programs	Reasons for not being prioritized	Suggestions for improvement
Agriculture Service Center(ASC) level training	Not being practical and need-based	Remove present ASC level training. Instead organize demand-led mobile technical training on partnership
Demonstration and minikit	Most of the demonstration being done in farmers adopted practices	Focus in new technology/practices which must address farmers' problems
District food day	No need of creating awareness about food security	Remove
Outreach activities	Top down approach, no orientation of small farmers' problems (rainfed and poor soils)	Major research funds to be used in need based adaptive research
Farms/Stations	Farms not recovering variable cost and not able to provide quality inputs and services.	Develop farms as resource centers and introduce double track management to generate revenue for maintaining farm cost.
Basic research	Not cost-effective in short term, any farmers feedback is gathered by the scientists when fixing research priorities.	Divert more resources to adaptive research from basic research., technologies already developed in neighboring countries can be verified and recommended
Cooperative training	Activities not tied with the farmers groups of DOA and DOLS. No functional linkages among 3 training centers of DOA, DOLS, and DOC	Tie up with the departmental activities. Develop functional relations so as to utilize each other's facilities.
District Cooperative Office	No authority to staff in 19 district offices which are without officer post	Amend Cooperative Law and restructure organization so to address the present needs. In these 19 districts, DADO to be authorized for overseeing the cooperative work.
JT/JTA training at regional level	Short, and not based on knowledge and skills for increasing capabilities and better performance after training.	Organize 3-months upgrading training focusing on imparting skills to enhance technical and social competencies
Tea and Coffee Board, and Tea Promotion Project.	Board is handling budget and programs of Tea Promotion project also.	Amalgamate budget headings into one.
Subsidy in transportation of inputs (fertilizer, and seed)	Increasing financial burden to government.	Provide subsidy only in inaccessible districts, projectized activities and poverty alleviation programs
Consultants' services	Not cost effective, and underutilization of available government expertise	Include consultants' services only in grant component.

4.5.3 Environmental Scanning for MOAC

In the process of MTEF, this SWOT analysis is done to assess the existing strengths and weaknesses (internal), opportunity and threats (external), and the environment in which MOAC exists.

Strengths:

- ◆ Reasonable manpower at central level
- ◆ Reasonable existence of laws and regulations
- ◆ Reasonably structured research and extension organization

Weaknesses:

- ◆ No motivation
- ◆ Weak linkage with industry, trade, forestry, irrigation, and financing institutions
- ◆ Poorly trained manpower at service delivery (grass roots) level
- ◆ Poor enforcement of laws
- ◆ Weak planning at grass roots level
- ◆ Limited rain fed technology
- ◆ Poor managerial skill
- ◆ Inadequate funds for investment
- ◆ Lack of adequate physical infrastructure
- ◆ Frequent changes in decision-making level
- ◆ Limited/inappropriate equipment and resources
- ◆ Poor service delivery due to lack of seed buffer-stock
- ◆ Lack of conducive environment for agro-industries to grow
- ◆ Unclear roles of different stakeholders
- ◆ Inadequate placement of right person in right post
- ◆ Weak institutional and professional arrangement of commercial orientation

Opportunities:

- ◆ Donors support for need-based programs
- ◆ Involvement of private sector/NGOs
- ◆ Export market
- ◆ Rich in bio-diversity
- ◆ Agro-climatic potential
- ◆ Plenty of irrigation water resources
- ◆ Abundant labor force
- ◆ Farmers' experiences and active farmers institution
- ◆ Vast market opportunity next door.

Threats:

- ◆ Reduction in government funding in Agriculture
- ◆ Political pressure/Instability
- ◆ Declining trend of donors funding
- ◆ High land fragmentation
- ◆ High dependency in monsoon
- ◆ Impact of price and support policy of neighboring countries.

4.6 Key Programs/Activities: a summary

A summary of the most important and successful areas that are to be addressed/prioritized are listed below. They are however, not presented in rank order as being inter linked with each other. Detail objectives matrix is attached in annex 2.

Commodities for food security

- Rice, wheat, maize, millet, potatoes (food crops)
- Milk, meat, and egg

Commodities for income generation

- Orange, apple, mango fruits – high value crops
- Vegetable seed and off season vegetable
- Ginger, sericulture, coffee, tea and cardamom
- Bee keeping, mushroom farming.
- Raising of small animals (pig, goat, poultry birds)
- Fisheries

Infrastructural development

- Small irrigation projects
- Development of marketing sheds
- Agro-processing industries/corridor development
- Seed storage godowns

Technology and successful practices

- Use of quality seed and fertilizer
- Nutrition
- IPM (Farmers school) and Farmers to farmers training
- Quality seed production at farmers level.
- Sustainable soil and water management practices, and IPN
- Community forage and leasehold forest

Research focus

- Farmers need-based, adaptive and participatory research
- Low cost technology for small farmers.

Modernizing agriculture

- Small Farmers' groups and cooperatives development
- Partnership and contract out with extension service providers
- Cost sharing in extension and training activities
- Double track management.
- Integration and collaboration in implementation
- Participatory monitoring and evaluation.
- Gradual reduction of government involvement in execution
- Quality service to the key stakeholders by increasing capabilities of staff through HRD.
- Bottom-up planning and projectization
- Quality control
- Institutional reform
- Decentralization

4.7 Basis of Prioritization of Programs/Projects and Cost Estimates

Programmes/projects

The following bases/methods were followed;

- Focus on contribution to national goal/objective
- Importance and relevance to key stakeholders
- Resource availability
- Past successful stories and experiences of development partners
- Suggestions from interaction workshop with all stakeholders including farmers
- Consideration of Government responsibilities.

Cost estimates

MOAC being a public sector service providing institution in technical field, the returns of investment directly goes to farmers and costs and returns are difficult to calculate unlike other sectors. Unit cost per ha. or per activity are based on the approved norms for such activity.

V. NEW PROJECTS PROPOSED FOR POVERTY ALLEVIATION AND INCOME GENERATION

Two new projects are proposed for poverty alleviation and income generation for hill farmers through market linkage. These projects are primarily founded on I-PRSP thrust. The first is based on low cost technology while the second focuses on high value crops. The four areas of poverty alleviation e.g. decentralization of technology transfer, access of the poor to production inputs, increase in productivity, and market facilities are well addressed and envisioned in the proposed projects.

5.1 Youth against Poverty in Agriculture (YAPA)

Despite several efforts by the government in the past, the problem of poverty still exists dominantly in Nepal. The earlier assumption was that the increased production of agriculture would automatically generate employment in rural areas for the poor. But it seldom happened. Another attempt of the government was to train the rural youth in agriculture to generate local employment opportunities, which was initiated from 1996. By now, about 1500 VAWs are already trained but none or a few of them are employed. Looking upon the seriousness of the problem, MOAC has realized the need to utilize this already developed human resource and accordingly put in the prioritized objective so as to directly benefit the poor. A project "Youth against Poverty in Agriculture" is proposed for uplifting 75000 rural households which will be implemented by the above said VAWs and/or AAs. Small contracts upto Rs 25000/- will be awarded directly to VAWs or AAs. The total cost is estimated at Rs 45,000,000/- for a period of 3-year. Some 75000 household of small farmers will be benefited from the additional employment opportunity generated by this project. in addition to the direct employment to 750 VAWs/AAs equivalent nine man-months (total time in implementing the contract). Similarly, unemployed JT/JTAs (trained from agricultural institutes) will also be awarded (upon the production of certificate) a contract of upto Rs 50000/- for serving 8 SF groups (annex 3).

5.2 High Value Commodities in North South Road-shed.

The vision of this program is to help achieve a key APP goal by exploiting the complementarity between hill and terai agriculture. The policy draft of tenth five-year Plan has also accorded priority to the commercial development of the HVC along North-South Road-shed. There is a huge potential to both boosting in agricultural growth and reducing poverty in road-shed area. It is realized that there is a missing link between the small hill farmers and the market despite the presence of road linkage. The income generated from the sales of crops and livestock commodities will enable such families to purchase basic foods from terai much cheaper than they could produce for themselves. In view of the above, MOAC has proposed this project for three years in the following road-shed area that is linked with markets.

- A. Taplejung - Panchathar - Illam – Birtamod market
- B. Okhaldhunga/Khotang – Katari market
- C. Terathum - Dhankuta – Dharan market
- D. Sindhupalchowk - Kavre (Kodari Highway)
- E. Lamjung(Besisahar) - Tanahu (Dumre market)
- F. Mayagdi - Banglung/Parbat – Pokhara market
- G. Gulmi - Palpa – Butwal market
- H. Rolpa-Pyuthan-Bhalubang market (Dang)
- I. Dailekh-Surkhet-Kohalpur
- J. Achham - Doti - Dandeldhura – Ataria/Dhangadi market

The beneficiaries will be 3100 commercial farmers (100 per district). The estimated cost of the project for 3 years is NRs 41952000/- (annex 4).

VI. OBJECTIVE-WISE ACTIVITIES COST

Rs. in ' 000

Summary of three year objective-wise Cost	2002/2003	2003/2004	2004/2005
1.To increase agricultural production, productivity, and incomes for food security and sustainable agriculture development	1497250	1505277	1664915
2.To develop and adopt need based appropriate technology	351800	360300	374060
3.To expand employment opportunities for the small farmers and landless workers.	84644	122458	135249
Total Objective Cost	1933694	1988035	2174224
Personnel	936000	946000	954000
Running Cost	241606	271742	276901
Total Cost	3111300	3205777	3405125
Ceiling Total	3111300	--	--
HMG	2071700	2870777	3057825
Loan	816800	135000	147300
Grant	222800	200000	200000
Funding Gap			

(Estimated details of costs and output are presented in annex 5 and 6).

6.1 Highlights of proposed MTEF budget and programs;

Programs

- Primarily focus on APP for increasing productivity (annual growth of 4.2 percent)
- Two new projects are proposed for poverty alleviation and income generation
- Budget allocation in priority areas such as small irrigation projects, development of market centers and supply of inputs in remote districts have been reasonably increased.
- Introduction of double track management to generate revenues, cost sharing and partnership with extension service providers and contracting out of extension services to VAWs, unemployed JT/JTA, NGOs, and private sectors are proposed.
- Upgrading of extension staff through training for developing their capabilities to provide quality services to the farmers.
- Introduction of participatory monitoring and evaluation system
- Reduction of funds in basic research and increment in adaptive research.
- Removal of ineffective extension methods.
- Reorientation of 19 District Co-operative Offices. DADO to be authorized to oversee the Cooperative activities in such districts.
- Devolution of extension services to DDC in process of decentralization
- Privatization of seed and animal health services are addressed.
- Partnership with VDCs in ASC level training.
- No change has been proposed in ongoing loan and grant project.

Budget

- A total of NRs 3111 million is proposed for coming year as against of NRs 3870 million this year, a decrease of 20 percent¹. This is because of prioritization and deletion of ineffective programs/activities, and phasing out of some donors' assisted projects.
- No increments are done in recurrent budget (a small decrease of 3.7 million) and low key program. Government funding is reduced by 20 percent in 1st year, 35 percent in 2nd, and 50 percent in 3rd year to different Boards and Committees in process of removing their dependency on government. Funding support to Cooperative Union is completely removed.
- A 10-20 percent decrease in funding for livestock and horticulture farms are not due to low priority but because the farms will generate revenues from the 2nd year and onward.
- A 66 percent decrease in ASC level training is because these training will be organized on demand and partnership.
- A 10 percent has been increased (2nd and 3rd year) in prioritized extension services that goes directly to benefit the majority of farmers such as raising of small animals and fodder/pasture, growing of crops, fruits, vegetables, and fisheries. Small amounts are also provisioned for pilot testing of contract out process.
- An increase in quality seed and fertilizer availability for food security is proposed.
- Capital investment in construction of office and quarter building is not included (though needed.)
- In process of privatization of animal health services, a gradual decrease in government funding to this sub-sector is also proposed.
- An over 60 percent of available funds for adaptive research and the remaining for basic research are proposed
- Present 10 man months training in RATCs/DOA are changed to 3 man months training of 3 batches of JT/JTAs and one man month of leader farmers are proposed.

6.2 Potential Areas to be Addressed in Case Additional Resources are Made Available within MTEF

- East-West Highway Corridor Programs.High value commodities such as small animals mango, litchi, potato, onion (additional acreage 1000 ha.) for import substitution.
- North-South Road-shed HVC in Ramechhap, Dolakha, Rukum, Salyan, Baitadi,Darchula
- Additional plantation of fruits (apple and citrus in 2000 ha.)
- Additional plantation of coffee (organic) in 100ha and sericulture.
- Construction of small seed godown cum marketing sheds in each district to be managed through farmers' associations.
- Additional small irrigation projects in 500 ha. and rain water collection project (plastic lining in small ponds and Dhiki system to uplift) for winter crops in 100 ha.

¹ The ceiling for loan and grant is Rs. 1290 million against the availability of Rs. 1040 million, the difference (gap) has to be arranged from HMG or other donor sources.

- Construction of Cold Storage/slaughter house in partnership with private sectors
- Chilling centers
- Soil kit in each district
- Strengthening cooperatives for agribusiness
(An estimate for additional activities may be around NRs 700 million)

VII. IMPLEMENTATION ARRANGEMENTS, MONITORING, AND ACCOUNTABILITY (Recommendations)

7.1 Extension

Priority areas for improvement

- As envisioned in APP and the tenth plan, the geographical potentialities in different enterprises will be harnessed for addressing the needs of the farmers. A basket of choices on alternative package of practices will be developed and made available to the farmers for adoption. The projectization process in execution of activities that has been started this year will be continued. Redesigning and refinement of each of the 3127 projects under DOA and DOLS will be done in coordination with stakeholders. In the process of redesigning, unfeasible projects which are not cost effective or which are not within the capacity/capability of the implementing agency for reasons of manpower and capital constraints will be removed. MTEF tool for prioritization will be used while doing so. Greater emphasis will be laid on prioritized areas -- such as marketing, agriculture related environmental issues, and on the economics of farm production -- while designing new projects. The number of projects to be implemented by the district will be decided according to needs, potentialities, and size in terms of area to be covered, available staff and capital resources. The number of projects will not exceed a maximum of 3 projects for each subject matter specialist (SMS). Each district will develop its own strategies and objectives on the basis of farmers' needs and potentialities using PC/PS tool for BUP. To check the 'thin spread' syndrome, a district will not allowed to select more than seven prioritized activities from among APP envisaged commodities.
- District agriculture and livestock extension services will be based on better planning with expected results quantified, and target for outputs and outcomes time bound in line with the process of MTEF. Efforts will be made for flexible, highly qualified extension services that are especially important to different production environments like hills, rain-fed areas, problem soils.
- At present, several groups are formed by GOs/NGOs based on their objectives and activities. At present, a farmer in a village is a member of even more than 10 different groups, and within the household the male is a member of one group and the female in another group. This has disrupted his/her regular farming activities to a great extent. To avoid this situation, all groups will be amalgamated into a gender-balance, and all the development agencies work in collaboration with the same group. Legal entity to such groups will be given so as to facilitate for formal linkages with

concerned development agencies (such as group itself as a collateral for credit purpose)

- To provide flexibility in implementation, a lump sum amount will be provided for each of the district extension activities based on the program needs, size, and household to be served under Extension Educational Programs (which will include demonstration, training/workshop, tours and other activities). District officer will be authorized to spend required amount in areas where he/she deems necessary after getting consent of regional office and in collaboration with DDC. The present trend of organizing demonstration and training in those technologies, which are already adopted by the farmers, will be completely stopped. The officer, who approves the bills for such unproductive expenses, will be made liable for serious punishment.
- With a view to transforming subsistence farming into commercial one, a three-year HVC project for north-south road-shed and a project directly targeting the small farmers (those who have no food for 12 months) to reduce poverty will be implemented.
- Priority will also be given as envisaged in the tenth plan for post-production handling, storage and marketing. Women participation in pre- and post-production activities will be encouraged. While doing so, the work overloaded and gender in-equality will be duly taken into account. Special income generation package programs such as bee, mushroom, vegetables, and raising small animals will be developed for women farmers only.
- Quality agriculture inputs supply for food deficit areas will be ensured. More emphasis will be given to vegetable seed production, fruits, herbs and medicinal plants in these areas.
- To direct cash from urban to rural areas, diversification of livestock activities will be done through the establishment of poultry birds industry in the village.
- Marketing sheds will be established in potential areas.
- For environmental protection, the agriculture programs will focus on promotion of organic manure, balanced use of chemical fertilizer, minimum use of pesticides, IPM, and maintain clean slaughterhouse and market shed in line with the tenth plan.

7.2 Research

Priority areas

- Research efforts will be concentrated on the APP prioritized commodities, while the focus of research will be on adaptive research rather than the basic. Generation and verification of technologies related to low production cost, maintenance of soil fertility, solution of problems of hybrid crops will be the major areas of research mandate along with region specific and/or location specific research as proposed in

the tenth plan. The funds available from recently established NARDF will be solely utilized for APP prioritized agro-ecological zones for adaptive research.

- Private sector will be encouraged in developing package of technology in hybrids.

7.3 Governance and Policy

- Administrative costs will be reduced through austerity measures and right-sizing the staffs. Project/Program and District Head will be given full authority with accountability. The available capital funds/budget will be utilized properly. Central departments will be made responsible for a close monitoring so as to stop misuse of funds.
- Structural reforms will be pursued for better integration and collaboration within and with other line ministries for targeting SF and APP goal. In the process, ASC level officer of terai districts will be posted in each of the 75 districts to implement poverty alleviation program/project. Similarly, readjustment of existing approved positions will be done in line with APP prioritized programs through upgrading the sections to divisions with specialized technical expertise. For this purpose, the present class-1 positions of terai districts will be adjusted in seed, sericulture, citrus, potato, post harvest, agro-business, and training. Of the two same level positions of class-2 in mid-hill districts, one will be transfer to high hill districts and to farms so to initiate a sound O& M. A task team will be formed to recommend the process and functions for strengthening and integrating agro-business and statistics division of MOAC, and quality control division of DOFDQC into a department by readjusting the existing manpower.
- Spouse of JT at ASC will be encouraged to open agro-vets and supported with interest free loan so as to provide services to the farmers in hills.
- Farms and stations (NARC and Department) will be re-oriented in line with double track system so that they can generate resource for running the farm and they will be developed as regional resource centers simultaneously. For generation of revenue by other government offices, cost-sharing procedures will be developed and implemented in training and extension services.
- A clear policy will be initiated in collaboration with other line ministries in order to re-orient the production programs to fulfill requirement of raw materials for agro-based industries and for the promotion of exportable goods and commodities. MOU will also be developed with MOWR and MOFSC for utilization of water and leasing out unused forest land for agriculture
- In the process of human resource development, upgrading of JTA to JT through a 3 months training will be done for improving the quality of services. MOAC will also take responsibilities for imparting training to agricultural technicians employed by local government. The basic qualification for new entry will be revised as I.Sc. Ag for

JTA, B.Sc. Ag for JT and M,Sc, Ag for SMS (class III). IAAS curriculum will be revised so as to match the needs and problems of farmers.

7.4 Collaboration with Other Partners

- Contract out of program/projects will be continued through competitive bidding among private service providers mainly in areas where public sector extension services have not reached. However, small contracts of up to Rs 25,000/- to VAW/VAHW/AAs and up to 50000/-to unemployed JT/JTAs for poverty alleviation will be directly awarded.
- Partnership programs with VDC/DDCs, and CBOs/NGOs will be strengthened. GO's support will be to provide technical expertise while all other costs will be borne by collaborating agency. GOs and NGOs activity should not waste limited agricultural capital resources through duplication of work with same household. Instead, they will be collaborated with each other before initiating a program/project.

7.5 Monitoring and Evaluation

- Monitoring and evaluation (M&E) functions are important tools for smooth management of projects formulated under MTEF principles. Although it is a plan for 3 years, it provides ample room for improvement every year. Presently, M and E have been institutionalized as a division/section/unit in ministry and departmental level, but they are concentrated more with paper works of progress reporting in terms of percentages of output target achievement. The achievement in agriculture is slow and the socio-economic conditions of the rural mass have not considerably improved. The beneficiaries are nowhere seen in this screen of M and E process. It is obvious to say that there seems to be a big gap of co-ordination between the plans and the programs being implemented. In other words, socio-economic goals/objectives are not translated into strategic actions for the speedy growth of agriculture. The strategic planning process in MTEF could help to resolve this issue to a great extent. The plan being very transparent with prioritized objectives, the output and outcomes, and activities with cost, it embodies in itself the elements of what and how to assess the impact of each of the activities, thereby greatly facilitating the process of M&E.
- The need for introducing participatory monitoring and evaluation system involving the stakeholders in the field level has been highly recognized by the ministry. It is common to perceive monitoring as similar to supervision; and the district staffs always loudly speak of poor monitoring from the regional and central levels. But in its real sense, it is assessing existing situation and helping or providing support to field staff for smooth functioning of the ongoing activities. It is therefore, a sole responsibility of the implementing office to prepare monitoring plans for approved activities and execute them regularly. The job of regional and central office would be only to verify if monitoring plans are properly followed. Verification of monitoring plans will be done regularly from the regional and central level. Present indicators

will be reviewed and modified so as to assess the impact in terms of increased incomes and better life, nutrition and growth.

- Evaluation of each of the activities/projects will be done at project site annually in the presence of farmers, DDC/VDC representatives, GOs/NGOs, and donors.
- Database and networking through Internet with implementing agency are in process under WB financed AREP project. Development of a more effective M and E system will require a comprehensive management information system (MIS) and procedures for regular planning, policy and impact assessment. The continuous support by WB in its improvement is being expected.

VIII. IMPLICATIONS FOR DONORS ASSISTANCE

The proposed MTEF provides a framework for donors to design their assistance strategy. Specialities of the framework are:

- Based on clear vision/mission, objectives, activities, output/outcomes
- Focussed on prioritized areas to attain national objectives
- Addressed to majority of key stakeholders for increasing incomes
- Emphasizing soft ware
- Emphasis on improving quality of services through staff training
- Initiatives to promote contract out and partnership with private service providers, and
- Built on expansion of successful practices.
- Oriented to medium term planning generally preferred by donors

It is, therefore, expected that strategic plans prepared in MTEF is very much donor friendly. Moreover, the government is also fully cognizant of the fact that the condition will be sufficient only when it commits itself to and is prepared for restructuring the whole system and improve and amend existing laws and policies as stated earlier.

IX. CONCLUSION

"If we fail to keep agriculture moving in less developed nations, poverty will continue to grow and the social upheaval that will ensue will become a global nightmare"---Norman Borlaug

In the context of declining trend of assistance for basic and ritual activities and the limited funds with MOF for investment in agriculture, it has been necessary for all institutions to think out the ways of being self reliant. The introduction of double track system in farm/stations, partnership with INGO/NGO DDC/VDC and cost sharing in training and extension services with the stakeholders could be the right moves towards this end. Due to capital constraints, a new situation has emerged that demands hard decision like gradual removal of all forms of subsidies as well as putting an end to all forms of free distributions in low priority areas. The budget thus saved should be better utilized in high priority areas. An average of 70 percent funds will be used in priority

areas. Government's obligation to the taxpayers still remains valid and a mere 30 percent is proposed for other than priority areas.

Due to a vast and diverse Nepalese agriculture with different environments, there are different priorities in high-hills, mid-hills, and terai. Thus it has become necessary to adopt and institutionalize bottom up approach of strategic planning through MTEF in each district

Important lessons were learnt from and shared with donor assisted projects in the past in the field of BUP and projectization, holistic view to address farmers problems, environment protection, and sustainable agriculture development. These lessons are well taken and institutionalized by HMG/N. The donor assistance in areas of human resource development, community forest, irrigation, bio-gas production, vegetable seed and off season fresh vegetable, and establishment of market infrastructures are among the best to mention here.

Nevertheless, with all these support for the upliftment of Nepalese farmers, we still have some more expectations of assistance in the future. The challenging task of Nepal ahead is to get rid of poverty, which is seriously implanted in the country. A strategic 3-year plan as presented above is expected to help reduce the present poverty level as envisaged in the 10th plan. The challenge presently facing Nepalese agriculture is one of making it market-led economic activity. This accordingly requires our oriented research and extension system to become increasingly market led. This forms the foundation for metamorphosing our subsistence farmers to commercial entrepreneur. Getting agriculture moving to this direction urges, however, for effective collaboration among public and key private stakeholders, NGOs/CBOs, and research organizations. Continuous support from donors' community in our endeavor will be highly appreciated.

Above all, decision makers at all levels must be prepared to understand the meaning of priority in that it demands not only resource commitment but also the right-alignment of institutions and professionals; and act accordingly.

