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**APP Implementation
Action Plan**

Final Report

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Abbreviations and Acronyms

ADB	Asian Development Bank
ADBN	Agriculture Development Bank Nepal
AEC	Agricultural Enterprise Centre
AGDP	Agricultural Gross Domestic Product
AGRIMIS	Agricultural Information Management Information System
AICL	Agricultural Inputs Company Limited
AKIS	Agriculture Knowledge and Information System
AoA	Agreement on Agriculture
APP	Agriculture Perspective Plan
APP-IAP	APP Implementation Action Plan
APP-ISR	APP Implementation Status Review
APP-IAU	APP Independent Analytical Unit
APP-MAU	Monitoring and Analytical Unit
APPSP	Agriculture Perspective Plan Support Programme
AR	Agricultural Roads
ARSs	Agricultural Research Stations
ASCs	Agriculture Service Centres
ASPR	Agriculture Sector Performance Review
BA	Bangkok Agreement
BIMST-EC	Bengal Initiative for Multi-sectoral Technical and Economic Co-operation
BISEP-ST	Biodiversity Sector Support Programme – Siwalik Terai
BZMUGs	Buffer Zone Management Users Groups
CADIC	Central Agriculture Development Implementation Committee
CAAS	Centre for APP Analysis and Studies
CBOs	Community Based Organisations
CBS	Central Bureau of Statistics
CCI	Chamber of Commerce and Industry
CDR	Central Development Regions
CDG	Community Development Groups
CF	Community Forestry
CFUG	Community Forest User's Groups
CITES	Convention on International Trade in Endangered Species of Wild Flora & Fauna
CSO	Civil Society Organisation
DADC	District Agricultural Development Committee
DADOs	District Agriculture Development Office
DADP	District Agriculture Development Plan
DANRC	District Agriculture and Natural Resources Committee
DANIDA	Danish International Development Agency
DDC	District Development Committee
DDCN	Dairy Development Corporation Nepal
DFO	District Forest Office
DFCC	District Forest co-ordination Committee
DFID	United Kingdom Department for International Development,
DFTQC	Department of Food Technique and Quality Control
DFO	District Forest Office
DIO	Division Irrigation Office
DIP	Decentralisation Implementation Plan
DLS	Department of Livestock Services
DLSO	District Livestock Office
DMP	District Model Plan
DOA	Department of Agriculture
DOF	Department of Forests
DOI	Department of Irrigation
DOLIDAR	Department of Local Infrastructure Development and Agricultural Road
DPC	District Priority Commodity
DPR	Department of Plant Resources
DSCW	Department of Soil and Water Conservation

DTO	District Technical Office
FAO	Food and Agricultural Organisation
FCO	Fertiliser Control Order, 1999
FECOFUN	Federation of Community Forestry User Groups Nepal's
FG	Farmer's Group
FNCCI	Federation of Nepalese Chamber and Commerce
FTA	Free Trade Area
FY	Fiscal Year
GATT	General Agreements on Tariffs and Trade
GDP	Gross Domestic Product
GO	Government Organisations
HLTF	High Level Task Force
HMGN	His Majesty Government of Nepal
HRD	Human Resource Development
HPPCL	Herbs Production and Processing Company Ltd
HVCs	High Value Commodities
IAU	Independent Analytical Unit
ICT	Information Communication Technology
IDC	Information and Documentation Center
IDL	theIDLgroup Ltd, UK
INGO	International Non Government Organisations
IP	Irrigation Policy
IPM	Integrated Pest Management
IPNMS	Integrated Plant Nutrient Management Systems
ISP	Innovation System Perspective
LAT	Livestock Action Team
LBFC	Local Bodies Fiscal Commission
LFP	Livelihood Forestry Programme
LBs	Local Bodies
LF	Leasehold Forestry
LSG	Local Self Governance
LSGA	Local Self Governance Act
LDCs	Least Development Countries
MDG	Millennium Development Goal
MFN	Most Favoured Nation
MFSC	Ministry of Forest and Soil Conservation
MOAC	Ministry of Agriculture and Cooperatives
MOF	Ministry of Finance
MLD	Ministry of Local Development
MLRM	Ministry of Land Reform and Management
MOWR	Ministry of Water Resources
MOPE	Ministry of Population and Environment
MTEF	Medium Term Expenditure Framework
M & E	Monitoring and Evaluation.
MPFS	Master Plan for Forestry Sector
NADC	National Agriculture Development Committee
NAP	National Agricultural Policy
NAPPC	National Agriculture Perspective Plan Committee
NARC	Nepal Agriculture Research Council
NARDF	National Agriculture Research and Development Fund
NDAC	National Development Action Committee
NDDB	National Dairy Development Board
NEA	Nepal Electricity Authority
NFP	National Fertiliser Policy 2002
NGO	Non-government Organisation
NNGO	National Non-government Organisations
NITP	New Irrigation Technology Projects
NLSS	National Living Standard Survey
NPC	National Planning Commission
NPCs	National Priority Commodities

NSCL	National Seed Company Limited
NSC	National Support Committee
NTFPs	Non-timber Forest Products
NTCDB	National Tea and Coffee Development Board
ODC	Other Duties Charge
O&M	Operation and Maintenance
OFMP	Operational Forest Management Plan
PDDP	Participatory District development Programme
PERC	Public Expenditure Review Commission
PF	Private Forests
PPP	Prioritised Productivity Package
PPB	Participatory Plant Breeding
TMN	Total Digestible Nutrients
PPS	Pocket Package Strategy
PRSP	Poverty Reduction Strategy Paper
PTA	Preferential Trade Agreement
RCA	Root-cause Analysis
RFP	Request for Proposal
RIP	Rural Infrastructure Development Policy
RTAs	Regional Trade Agreements
SAFTA	South Asian Free Trade Area
SAARC	South Asian Association for Regional Corporation
SAPL	Second Agriculture Programme Loan
SAPTA	South Asian Preferential Trading Arrangement
SC	Service Centres
SDC	Swiss Development Corporation
SEAN	Seed Entrepreneurs Association of Nepal
SMS	Subject Matter Specialist
SNV	The Netherlands Development Cooperation
SOP	Standard Rules of Operation
STW	Shallow Tubewell
SPS	Sanitary and Phyto-Sanitary Measures
TLDP	Third Livestock Development Project
TRIPs	Trade Related Intellectual Property Rights
TOF	Tree Outside Forest
TU	Tribhuvan University
TWT	Technical Working Team
VAT	Value Added Tax
VDC	Village Development Committee
WIPO	World Intellectual Property Right Organisation
WTO	World Trade Organisation
WUAs	Water User Associations

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Executive Summary

The mid 1990s witnessed a significant phase in Nepal's agricultural history when a concerted sector perspective was laid out for the first time in the form of Agriculture Perspective Plan (APP). It was a product of almost 3 years of intense consultations and brainstorming which envisioned a virtual transformation of the sector from subsistence to business mode. Its mission was long-cherished poverty reduction from the sheer force of agricultural growth that would propel even the non-agricultural sectors through the multiplier chain.

Elsewhere in the world, the whole development outlook was briskly transforming with the tides of economic liberalisation and globalisation. ICT sector saw an unprecedented boom. Back home, the country was struggling with the on-set of a ghastly domestic conflict that continues to date. The conflict not only necessitated the diversion of resources away from development, but also ruined the limited infrastructure base of the already battered economy. The government was also committed to devolved governance as the way forward for the new millennium. All these developments had strong bearings on APP implementation.

Recourse to APP implementation, in the light of these new developments, thus became inevitable besides shaping an unfinished task of translating the perspective strategy into implementable action schema.

In this backdrop, there is a strong rationale for the preparation of APP-IAP that maintains the sublime spirit of the APP while addressing the emerging new developments - both positive and negative. It is with this intent and the realization on the part of the highest policy making body for agricultural development under the National Planning Commission that this APP-IAP has been prepared.

The whole exercise was split into three sequential output sections – I) review of completed implementation (APP-Implementation Status Report, ISR); ii) formulation of the broad national implementation action plan for the remaining period (APP-IAP); and iii) the formulation of the district model plan compatible with the broad national action plan (APP-DMP).

The exercise entailed intensive review and consultations with a broad range of stakeholders (government, civil societies, local bodies, farmers) at all levels – from the centre to the grassroots, separately for all output sections.

APP-ISR found the overall APP implementation generally deviating from the APP spirit – towards a more favourable stance in some cases and without a purpose in many other cases. The priority inputs performed dismally while priority outputs did relatively better. The overall performance trend was adjudged to have fallen short of expectations with a lot of catching up to do in the remaining period.

A probe into reasons for sub-optimal performance revealed 16 problem areas rooted in three major problem spheres – I) lack of investment; ii) problems in concept and design; and iii) organisational weaknesses.

APP-IAP intends to catch up with these outcomes and impact in the remaining period and move beyond in the new spirit of the changed millennium. It builds on the APP-ISR to the extent that the root causes of sub-optimal performance in APP implementation are

addressed - not just the symptoms. It maintains the basic spirit and objectives of the APP with renewed strategies and priorities to achieve the objectives in the changed context accommodating reforms underway in (a) overall government policies such as the trade liberalization, private sector development policy, poverty reduction strategy paper/10th Plan, decentralized governance, medium term expenditure framework, institutional polycentricity, (b) sub-sectoral policies such as National Agricultural Policy 2004, Rural Infrastructure Policy 2004, Irrigation Policy 2003, Revised Forest Policy 2000 and (c) consequences of recent events such as on-going conflict, deterioration of peace and security situations, membership to the world trade bodies such as the WTO, SAFTA and BI-MSTEC, and more importantly farmers' increasing demands and claims for better services (quality and quantity).

Rooted in the overall objective of the APP - to maximise the contribution of agriculture to the national goal of poverty reduction, the purpose of APP-IAP is to:

- Remove existing confusions, ambiguities and uncertainties towards convergent understanding of the APP;
- Formulate set of action plans for the updated strategies to make APP more effective in the changed national and international contexts;
- Identify the problems and constraints experienced during the tenure of APP implementation and to find ways to resolve these problems for undeterred implementation of the APP;
- Provide basis and rationale for the programs and projects to be developed in the future for agricultural development;
- Develop strategies and activities for systematic monitoring and evaluation of the APP activities in the remaining period.

The overall strategy pursued by the APP-IAP is to achieve broad-based and equitable agricultural growth with direct and indirect impacts on poverty reduction. To ensure good governance, it has adopted some uncompromisable principles in implementation such as transparency, accountability, evidence-based planning, responsive to differences between target groups, plurality of service providers, gender mainstreaming, social inclusion and environment conservation.

While APP-IAP recognises the need for the priority outputs and the priority inputs, their composition has been modified and expanded.

The priority outputs have not been specified for simple reason of their dynamics – i.e. subject to change in conjunction with the changing comparative advantage. It has been redefined broadly in terms of National Priority Commodities (NPCs), which will be determined based on the analysis of national and international potential; and District Priority Commodities (DPCs), which are determined locally, based on district specific potentials and opportunities.

The priority inputs domain, likewise, has been expanded in recognition of the reformed definition of the output, the changed contexts, the neighbouring experience, and to ensure congruence between inputs and output.

APP-IAP has now been made sector-wide such that all activities under the MOAC including the core activities are now within the APP. The APP activities of other related Ministries, due to its multi-sectoral design, will be the sub-set of their respective ministerial activities. By design, it will be demand responding, flexible, fully nested with the national and local plans, adequately institutionalised with clear delineation of the roles and responsibilities of all stakeholders, fully devolved, and conflict sensitive.

It envisages continual development, reform and refinement of sub-sector strategies at national and district level, formulation of annual district agricultural development plan and use the clustering approach to implement it at the district level. To ensure this, it requires high level analysis of international, domestic trade, microeconomic policy, three-pronged service delivery approach etc which informs the development of APP-IAP strategies. The strategies, in turn, are to provide basis and reasons for making decisions with regard to the identification of national priority commodities, basic services, core functions, inter-ministerial allocation of resources and investment, and identification of national and district functions etc. Based on these decisions, specific measures or activities are to be developed, funded, and implemented as a part of either the national programmes or projects.

The APP-IAP framework is thus rooted in learning and relearning, sharing of experiences, knowledge and information at different levels, central and district, and between different groups of actors and stakeholders- public, private, CSOs and farmers.

The framework is sequentially grouped into analysis, strategies, prioritisation measures for national schemes/projects and the District Agricultural Development Plan.

Trade, both international and domestic, will be based on the principles of dynamic comparative advantage. The standards will be targeted to the products realistically likely to be traded. Some basic sub-sectors will be protected using internationally allowable limits of protection available to LDCs.

Macro-economic policies will be made agriculture friendly – through higher allocation for agriculture, tight fiscal and monetary policy and monitoring of real exchange rates.

Three-pronged service delivery will be ensured differentiating farmers into three categories (extremely poor, poor and non-poor) based on the risk internalisation capacity. The extremely poor group will be entitled for state support including safety-net, poor group will witness targeted access to basic services while non-poor group will be targeted for agricultural commercialisation.

Subsidy will be cautiously used for supporting extremely poor groups and new enterprises in a way to minimise market distortions.

Established conflict sensitive approaches using NGOs, CBOs and informal private sector and the application of “Do no harm” principles have also been emphasised.

Private sector will be mobilised for production, service delivery and investment through the creation of enabling environment. The role of informal private sector will be critical in providing services at doorsteps and in doing business under conflict situation.

In sub-sectors, infrastructure will be broadened to include market hardware, alternative energy sources in power and other market access forms in transport. Input priorities have been expanded and rendered more generic. Land and forestry have been included as priority natural resource inputs. Seeds, breeds and planting materials have been de-lumped from research and extension while the ICTs have been added to improve innovation efficiency.

The action plans for each sub-sector have been proposed with a view to streamline supplies and improve efficiency. The responsibilities and time horizon have been specified. HRD measures have been included that were largely ignored in APP.

In view of the poor performance of APP due to organisational weaknesses, high importance has been attached to institutional and management improvements. The nodal APP

management agency has been upgraded to Cabinet secretariat level from MOAC due to APP's multisectoral nature. The coordination structure has also been upgraded as NAPPC chaired by NPC Vice-chairman. Planning divisions of the APP Ministries have been designated for coordinating the APP function under each ministry. Likewise, internal APP monitoring functions are to be carried out by respective M&E division/sections. At the district level, all sub-sector committees are replaced by one single committee – DANRC.

In view of the need for independent high level analysis requirement, it is suggested to re-establish APP-IAU turned APPMAU (renamed as CAAS) outside the government but in its close proximity.

Both internal and independent external monitoring and evaluation structures and processes have been defined. Monitoring has been proposed to be linked with PMA system developed and instituted by NPC.

Other general institutional reform measures in the public sector with the aim of facilitating private sector and CSOs have been enlisted.

In investment, increased allocation and predictability rules have been proposed. Some experimentation with commodity cess systems to finance APP components (such as gasoline tax for agricultural market access) have been suggested. Block grants and conditional grants to local bodies, outsourcing for service delivery to private sector and NGOs are some of the financing modes for implementing APP activities. Donor harmonization with spending efficiency, poverty orientation and expanding MTEF prioritisation process are advised.

Lastly, flexibility is ensured through defining the rules for changing the APP-IAP on both periodic and continuous basis.

1. Introduction

1.1 Background

1. This Agriculture Perspective Plan Implementation Action Plan (hereafter APP-IAP) is the outline of specific strategies and activities to implement the APP spirit in the changed context and that are prescribed to be carried out by the government and other stakeholders.
2. The 9th Plan recognized the central role of agriculture and adopted the strategies, priorities and targets set by the APP. The Poverty Reduction Strategy Paper (PRSP)/10th Plan (2002-07) provided continuity to most of the efforts started under 9th Plan and reiterated many of the aims and approaches of the APP and has given agricultural development and poverty reduction a high priority.
3. Almost all the bilateral and multilateral agencies endorsed and acknowledged the potential merits of APP for agriculture led development and poverty reduction. The government endorsed and incorporated the vision and strategic thrust of APP in its policies and plans.
4. The APP envisaged realising broad outcomes and impact that remained largely unfulfilled in the last 8 years of its implementation (APP-ISR, 2005). APP-IAP intends to catch up with these outcomes and impacts in the remaining period and move beyond in the new spirit of the changed millennium – as reflected in the Millennium Development Goals (MDGs)¹. The APP, formulated in the last millennium encompassing a part of the new millennium period, has not been able to sufficiently accommodate this new millennium spirit.
5. APP-IAP does not underestimate the importance and the need for the priority outputs and the priority inputs as have been explicitly stated in the APP. These are implicit in the APP-IAP.
6. The priority outputs have not been specified due to their dynamics – they are subject to change in conjunction with the changing comparative advantage. APP-IAP has thus redefined outputs broadly in terms of National Priority Commodities (NPCs), which will be determined based on the analysis of national and international potentials; and District Priority Commodities (DPCs), which are determined locally based on district specific potentials and opportunities.
7. The priority inputs domain, likewise, has been expanded in recognition of the reformed definition of the output, the changed context and to ensure congruence between inputs and output.
8. The whole process of APP-IAP formulation has been influenced, inspired and ignited by the views and concerns of a large group of stakeholders (public, private and civil societies and farmers) during more than four dozen elaborate consultations undertaken at various levels from centre to the grassroots. Nearly 532 stakeholders provided their feedback during different consultations.

¹ The MDG spirits applicable to agricultural sector development are eradicating extreme poverty and hunger, promoting gender equality and empowering women, ensuring environmental sustainability, and fostering global partnership for development.

1.2 Rationale for the preparation of APP-IAP

9. Firstly, APP has been one of the most acclaimed documents from almost all quarters. However, during implementation, neither the required resources could be mustered nor the true spirit of the APP could be put into place. This state of affair has been adjudged to be due to lack of specific action plans to implement the APP. APP as such is a vision and a broad strategic framework for the development and commercialisation of agriculture in Nepal. The vision and the broad strategic framework without an associated action plan can neither be directly implemented nor can it attract resources.

10. Secondly, there has been a lot of change to the context in which the APP takes place since the beginning of APP implementation in 1997/98 some of which are the outcomes of the global changes in development perspectives. Globalisation and liberalization in trade regimes, added impetus on quick poverty reduction, need for devolved governance and rising conflicts are some examples, which have been elaborated in the APP-ISR. Nepal has been a party to several international conventions reflecting these new developments besides being a full member of WTO and other trading regimes such as SAFTA and BIMSTEC. The policy and institutional implications of these new developments were not known during the formulation of the APP.

11. Thirdly, Nepal has committed and embarked on the path of fully devolved governance as per the LSGA 1999 and LSG Rules 2000. Such commitment, which obviously becomes imperative in APP implementation, demands a change in processes and institutions and thus, would require an action plan to set these processes up.

12. Fourthly, the action plan would be needed to accommodate proliferating sector and sub-sector policies that have encompassed more forward looking propositions embodying the elements of the change contexts. It is also needed to address the important but relatively weakly dealt-with components such as human resource development.

13. Further, Nepal is undergoing a difficult phase of internal conflict since the beginning of APP implementation where development activities in the outer rings have virtually been paralysed. There are no signs of this conflict being settled in the foreseeable future. There is, therefore, a need to apply conflict-sensitive development to reach to the outer rings where poverty and exclusion is most precarious.

14. The action plan will also be important to develop specific programs and project propositions to mobilise resources.

15. In this backdrop, there is a strong rationale for the preparation of APP-IAP that maintains the spirit of the APP while addressing the emerging new developments - both positive and negative. It is with this intent and the realization on the part of the highest policy making body for agricultural development under the National Planning Commission that this APP-IAP has been prepared.

16. The task of preparing the APP-IAP has been prioritised by the National Development Action Committee, chaired by the Prime Minister. The Committee included this activity under its Immediate Action Plan for the Nepali Fiscal Year (2061/62). The Committee also formed a High Level Task Force (HLTF) under the Chairpersonship of the Honourable Member of the NPC (Agriculture) to oversee, steer and monitor the APP-IAP design process (Annex 1.1).

17. To assist the HLTF in drafting the APP Implementation Action Plan, a Technical Working Team (TWT) was constituted under the leadership of the Secretary of MOAC and

supported by a team of consultants (theIDLgroup, UK and NARMA/SEEPOR, Nepal) (Annex 1.2).

1.3 Purpose of APP-IAP

18. Rooted in the overall objective of the APP² which is to maximise the contribution of agriculture to the national goal of poverty reduction, the purpose of this APP-IAP is to:

- Remove existing confusions, ambiguities and uncertainties towards convergent understanding of the APP;
- Formulate set of action plans for the updated strategies to make APP more effective in the changed national and international contexts;
- Identify the problems and constraints experienced during the tenure of APP implementation and to find ways to resolve these problems for undeterred implementation of the APP;
- Provide basis and rationale for the programs and projects to be developed in the future for agricultural development;
- Develop strategies and activities for systematic monitoring and evaluation of the APP activities in the remaining period.

1.4 Methodology for the preparation of APP-IAP

19. The major basis for the APP-IAP is the APP Implementation Status Review (APP-ISR) which was an intermediary output to the APP-IAP. The purpose of the APP-ISR was two- fold. First, this review was to provide evidences, establish sound bases and provide justifications for amendments, adjustments or adaptations in the APP. Second, this review was to identify areas or concerns to be focused by the proposed APP-IAP to make it relevant and appropriate to the present institutional, socio-economic and other operating contexts. APP-ISR is a product of the extensive literature review, inquiries and consultations with a broad range of stakeholders from centre to grassroots levels.

20. Additional methodology followed during the preparation of APP-IAP is discussed hereunder:

Further Literature Review

21. More literature were reviewed to explore the conversion of the strategies to specific action plans. The list of literature reviewed is presented in Annex 1.3.

Further Consultations

22. A total of 22 sub-thematic and thematic consultations including the two consultations, one each on priority inputs and priority outputs, chaired by honourable members of the National Planning Commission (NPC) and national consultation chaired by honourable member of NPC were held to solicit the participants' views and suggestions on the action plan preparation. The details of agenda and participation in these consultations are presented in Annex-1.4

² The APP claimed that with its implementation, the proportion of rural poverty will be reduced by half , and the poverty level will come down to 14% at the end of 2014/15 from that of 49% estimated at 1991/92.

Neighbouring Country Experience

23. APP-IAP incorporates learning from an observation tour³ to India undertaken by a team of 8 persons. The team lead by a senior Joint Secretary of the Ministry of Agriculture and Cooperatives included two members from the Consultant team and 5 TWT members (Annex 1.5). Carried out with an overall objective of learning from the experiences of Punjab and Himachal Pradesh development models and processes, and assessing their relevancy and applicability in the present context of Nepal, the purpose of the tour was:

- To learn the process of translating commercial vision of agriculture into workable plans and programmes at various levels and activities towards the sustainability of the commercialisation process, and
- To draw lessons from the poverty reduction dimensions and targeting of these State's approaches to agricultural development.

District Model Plan

24. As a part of the APP-IAP preparation, the District Model Plan (DMP) has been prepared for Bara district (Volume 2). The DMP is a readily implementable district agricultural development plan (Annex 1.6) to be nested within the district planning framework and the District Periodic Plan. The DMP embodies the strategies, policies and priorities of the APP as updated by the current APP Implementation Action Plan. New insights found during the process of DMP preparation have also been additional basis for the APP-IAP preparation.

1.5 Report Organisation

25. This report is organised into seven chapters as follows. Extending the problems and constraints identified by APP-ISR further, chapter 2 discusses the problems to be fixed and or opportunities to be addressed, and presents the summary of analysis under the APP-ISR. The purpose is to recapitulate the APP-ISR findings and set the agenda for the chapters hereafter. Chapter 3 presents a strategic framework for the APP-IAP with the following three elements: (a) objectives and strategies of the APP-IAP (b) APP-IAP principles, and (c) design features of the APP-IAP. Chapter 4 elaborates on specific strategies by which key issues are to be addressed. Chapter 5 delves into sub-sectoral strategies and APP-IAP management issues. Institutional arrangements are proposed in chapter 6. Last but not least, chapter 7 turns sub-sectoral strategies into specific actions for key APP sub-sectors.

³ The study tour was held between September 7-17, 2005 and the team visited Delhi, Chandigarh and Simla.

2. Situation analysis

26. The APP- ISR analysed the status of APP implementation delving on each of the five priority inputs⁴ (irrigation, fertiliser, technology, agricultural road & rural electricity and credit) and four priority outputs (Livestock, High Value Commodities, Forestry and Agribusiness) and their collective impact on rural poverty, food security, environment and gender through a mix of what APP aspired and what actually transpired in terms of policies, institutions, investments and contexts.

27. Above status report (APP-ISR) has broadly indicated inadequacy of the APP to achieve for what it was conceived and made attempts to search why things happened as they did and where were the gaps, deviations and problems, etc.

28. Extending the problems and constraints identified by APP-ISR further, this chapter discusses the problems to be fixed and or opportunities to be addressed, and presents the summary of analysis under the APP-ISR.

29. The chapter is divided into 5 sections. Based on the literature review and analysis, the first section briefs the current status of Nepalese agriculture. Section 2 focuses on the three root causes which were drawn out of 16 causes (Annex 2.1) responsible for the poor performance of the APP. Farmers' issues, disaggregated within the livelihoods approach, that need to be resolved and priorities to be enabled are discussed in the third section. This has provided basis for understanding differences and corresponding different strategies needed for different farmers. External factors affecting the performance of the APP which include contexts, institutional aspects, challenges etc. are discussed in fourth section. These include issues related to trade, decentralisation, conflict, neighbour factors, NGOs, CBOs etc. The last section summarises the chapter to provide the context/framework to include the strategic framework for the APP-IAP and what needs to be done.

2.1 Overview of the Current Status of Nepalese Agriculture

30. Agriculture, the mainstay of national economy, which engages about 80 percent of the total population (ASPR 2002), contributes to about 38 percent of the GDP and to over 80 percent to the export sector, is not performing as expected. Against the planned target of 4 percent annual growth, agricultural growth has remained at just an average of 3.3 percent in the Ninth plan period (SAAPE 2003) and lesser then onwards (APP-ISR).

31. In addition to half-heartedness in implementation of the APP, other reasons for such lower growth rate as against the plan expectations are: Inadequate growth in the irrigated area and use of fertilizers, less development expenditure than targeted, unfavourable weather condition during the first and last year of the plan and decline in the value of the agricultural harvests (Tenth Plan 2002).

32. The interdependency among three rural sub-sectors - farming, animal husbandry and forestry, is unique to the Nepalese farming systems. A small imbalance in one sector can bring the entire crop-livestock-forestry equation to a breaking point as has already happened to many hill farming systems in the hills (FAO 2001).

⁴ Credit, as added by the Interim APP 1996, has been added to make 5 priority inputs from 4.

33. Of the three major physio-graphic regions of the country, dependence on farming is high in Terai, medium in the hills and low in the mountain areas. The Terai represents agriculture that is shifting from subsistence to commercial in nature, with changes happening more rapidly in eastern Terai compared with the western Terai. The Terai agriculture has become increasingly dependent on the development of Indian agriculture, particularly with regards to rice cultivation. More than 80 percent farmers cultivate Indian rice varieties-Sona Masuli and Pankaj, which are not recommended by Nepal due to blight disease. However, the disease is not economically important to the farmers. Many larger Terai farmers have started to grow hybrid rice varieties produced in India, which are yet to penetrate Nepal's research system effectively. A larger amount of seeds, plant protection materials, and fertilisers of dubious quality enter Terai through cross-border trade, which are not accounted. Many poor farmers compromise quality for price. Nevertheless, Terai remains the area with the best potential to provide basic food and industrial crops for Nepal.

34. The hill and mountain agriculture is largely sustained by seasonal migration to India and this process is particularly high in western and far-western hills. Recent conflicts and Maoists insurgency have led many youths to leave the villages, which have not only feminised agriculture, but also added further workloads to already over-burdened women. Many farms are left barren either due to the lack of farm labour, particularly male or as a result of orders issued by Maoists to halt cultivation. Many leader farmers have been forced to leave villages or to compromise with them. It is reported that the Maoists have initiated communal farming in some areas.

35. More than Terai, hills and mountains agriculture is affected by recent conflicts, partly as a result of direct consequences or effects of conflicts, and partly due to highly subdued movement of grassroots extension workers in the villages. The problem is further aggravated by the failure of the exchequer to allocate sufficient budget and the need to cut down the budget or slow down the release process in the middle of the financial year. Breaking of strategic bridges and orders of Maoists have also refrained farmers from travelling to district headquarters and other areas in search of better/good quality farm inputs and modern seeds.

2.2 Setting the Agenda for APP-IAP

36. The overview in the previous section sets the context in which the APP-IAP is being introduced, and begins to establish an agenda that the APP-IAP needs to address. This section develops the agenda further, based on three sets of issues. The agenda for the APP-IAP is set by:

1. The difficulties faced in the first 10 years of APP implementation. These are defined by the analysis conducted in the APP-ISR, which identified 16 key problems shared by both the national level and sub-sector level. It is also further elaborated by the extensive consultation process conducted with sub-sectoral groups (thematic and sub-thematic) that has been a feature of the APP-IAP development process. The APP-IAP makes plans to address these 'supply-side' issues.

2. The priorities of the farmer clients of the APP-IAP. Farmers are private sector actors who make their own decisions based on the context in which they find themselves. They cannot be ordered what to do; they cannot be planned. The APP-IAP is therefore a demand-led enabling framework, which is strategic in its objectives but also responsive to what farmers need. Whilst in practice the APP-IAP will therefore be informed by processes, which assess client demand, the analysis and consultation conducted as part of APP-IAP development sheds some light on what the 'demand-side' issues might be.

3. The changes in context since APP was designed. It is 10 years since the APP was introduced and much has changed during that time. The APP-IAP maps out those changes coming from the 'out-side' and builds in its response.

37. Each of these sets of issues is now discussed in more detail, in order to set an overall agenda for the APP-IAP.

2.2.1 Addressing the Problems

38. The role of government in the agriculture sector is to enable agriculture sector development. However, analysis of government's record with the 10 years of APP implementation to date illustrated that it had neither stuck to this role nor done adequate justice to it. Many of the issues identified related directly to public sector management, rather than to external forces. A major focus of APP-IAP planning and implementation must therefore be to address those known problems, which inhibited the performance of the APP.

39. The APP-ISR identified as many as sixteen different types of problems in both APP priority inputs and outputs. The number of problems and degree and intensity of specific problems differed by type of inputs and outputs (Annex 2.1). Of these problems some were related to policy and institutional aspects, others to implementation. The more these issues can be addressed in the future, the more effective the APP-IAP will be at achieving its objectives.

40. The problem analysis identified the three root causes for the sub-optimal performance of the APP (APP-ISR Chapter 5). These were: (a) inadequate investment (b) conceptual and design problems and (c) organisational weaknesses. These causes are parallel and no one is necessarily greater or smaller than the other. Analysis of these problems further confirmed some weaknesses of APP in its concept, design and implementation.

41. Table 2.1 below summarises the 16 problems identified by the APP-ISR, and provides some specific examples for each problem as revealed from sub-thematic papers and consultations to illustrate the spread of issues to be addressed.

Table 2.1: Problems identified by the APP-ISR (Supply Side)

SN	Supply side	Specific examples
1	Poor implementation	<ul style="list-style-type: none"> Emerging second and third generation issues (e.g. equity and active management in case of forestry;) Lack of confidence and trust between the public and private sector (livestock, agribusiness) Difficulties in making availability of production inputs, (e.g. fertilisers, seeds, credits (breeding materials, feeds veterinary supplies, credits) in terms of timeliness, quality and quantity) Quality control of fertiliser
2	Coordination	<ul style="list-style-type: none"> PPP concept not adequately understood and conceptualised, Multiple committee operational at district, central and central level (e.g. DADC, LAT, DFCC at district level) Agricultural Road, Irrigation, Rural Power hardly integrated in the PPS)
3	Investment	<ul style="list-style-type: none"> Inadequate public sector investment Lack of mechanisms to monitor the public and private investment (e.g. agribusiness)

SN	Supply side	Specific examples
		<ul style="list-style-type: none"> Local government and NGOs expenditure on agriculture development not accounted No major new donor assisted programmes or projects targeting the APP implementation (except APPSP) HVCs not adequately invested
4	Conflict	<ul style="list-style-type: none"> Difficulties in delivery of services due to on-going conflict and insurgency Movement of the District staff restricted, services delivered from the district headquarters
5	Ownership	<ul style="list-style-type: none"> Sector guided by their own plan rather than APP (e.g. forestry sector by MPFS) Weak monitoring and supervision of APP implementation Different people interpret APP differently
6	Policy weaknesses	<ul style="list-style-type: none"> Policy Hierarchy of APP (NAP, MPFS, RFP and APP) not clear Policy and legal hurdles (e.g. Public milk pricing policy affecting private dairies, taxing policy prohibiting competitiveness) Local traders' concerns over government inadequate support towards the export of NTFPs, particularly several hurdles after the products arrive at India for export to the third countries Regulatory provisions not sufficient to address the emerging issues particularly related to global trade, environment and conservation of natural resources (e.g. livestock);
7	Different understanding	<ul style="list-style-type: none"> Flexibilities in the APP defined differently, to some APP is highly flexible, to others it is a rigid plan
8	Human Resource Capacity	<ul style="list-style-type: none"> Lack of human resource development policy
9	Management	<ul style="list-style-type: none"> Confusing and contradictory Decision making authority with regards to APP issues and problems not clearly identified (Leadership issue).
10	Governance	<ul style="list-style-type: none"> Sector has moved beyond to what APP envisaged (e.g. forestry sector,
11	Organisational weaknesses	<ul style="list-style-type: none"> Leadership, control Coordination Data not reliable and not available when required
12	Unclear Roles	<ul style="list-style-type: none"> District Vs Central
13	Unrealistic assumptions	<ul style="list-style-type: none"> Blanket approach on defining priority commodities (e.g. HVCs in the district)
14	Conceptual and Design Problems	<ul style="list-style-type: none"> Whether to continue with livestock as a priority output to APP when APP priority inputs contribute little to livestock output Forestry is an input to the APP, or an output of the APP
15	Incompatibility with peoples' needs	<ul style="list-style-type: none"> Seeds farmers' first priority but poorly addressed in the APP
16	Global effect	<ul style="list-style-type: none"> Information communication technologies, globalisation, trade liberalisation issue poorly addressed

2.2.2 Addressing Farmers' Priorities and Constraints

The Nature of Differences Between Farmers

42. The majority of Nepalese farmers are still largely subsistence or semi-commercial. About 85 percent of Nepal's 23 million are engaged in subsistence-oriented agriculture, based on integrated crop-livestock or crop-livestock-forest farming systems.

43. By world standards, Nepali farmers are small and marginal. However, it is customary practice in Nepal to categorize them into small, medium and large depending on the size of

land holding that they operate, and in terms of five livelihoods assets (natural, physical, social, human and financial). These farmers differ by their ability to withstand shocks and stresses and by circumstances under which they operate.

44. Likewise, what women farmers expect is different to what their counterpart men expect despite that majority of the technical problems faced by men and women farmers are the same. This requires the need to disaggregate farmers' issues also by gender. Livelihood options and choices often differ by gender. Disaggregating problems by categories of farm size and by gender is therefore important in Nepal.

45. Similar to the gender issues, the livelihood options available to Terai farmers would also be different to that of the hill and mountainous farmers, so too the farmers living in the fertile valleys. Therefore, disaggregating farmers' issues by all types and categories is important in order to ensure policy measures are able to be targeted and to ensure that all categories of farmers are enabled and not just some.

Farmers Problems in Access to Services

46. Prior to assessing farmers' issues and concerns by type and gender, it is important to understand that the farmers living in different socio-economic setting and circumstances might have same set of problems but their severity and intensification could be different and therefore fall under different priority. This was what APP-ISR concluded having assessed farmers' issues in four districts selected for the grassroots level analysis of the APP implementation (Bara, Udaypur, Baglung and Humla). Annex 2.2 has details. A further message from the information presented in Annex 2.2 is that defining sectoral priorities of farmers in general terms is not sufficient, rather addressing their specific concerns is. The APP-IAP is designed accordingly.

Farmers Problems by Wealth Category

47. Table 2.2 below shows the results of consultations with farmers on the problems they faced, disaggregated by farm size. It shows very clearly that different categories of farmers have different priorities. Their access to resources defines their options, so that wealthier and poorer farm households have different objectives, strategies and constraints to each other.

48. The implication of this observation is that they are likely to commercialise in different ways. All would like to commercialise if they had the chance, but they will do it in different ways and at different rates. Wealthier farmers have greater purchasing power and are more able to bear risk and so are likely to be more responsive to availability of technology and services. They are able to commercialise and modernise if they choose. Poorer farmers however have lower purchasing power and are less able to bear risk. This means that they may act in a risk-averse way to new opportunities, and are likely to be slower in their decision to commercialise. They are likely to require technologies and services which help them manage that risk, before being able to commercialise.

49. This indicates that the APP-IAP must enable government to formulate strategies which are sensitive to the different requirements of these client groups, based on a better understanding of these differences. ***This requires a move away from a blanket approach in which one size is assumed to fit all. In order for this to happen, the APP-IAP will institutionalise processes for ongoing assessment of demand and the feeding of this into planning at local and national levels.***

Table 2.2: Problems to be addressed, from the perspective of the Farmers (Demand Side)

Problems to be addressed	Inputs	Outputs
Commercial (Large)- Too small in numbers	<ul style="list-style-type: none"> Poor and unreliable market information system and the market Not available when needed Poor quality of the inputs Types do not correspond to requirements 	<ul style="list-style-type: none"> Poor and unreliable market information system and the market Poor mechanism to link production pocket with the market Difficulties in getting timely supplies of production inputs and credits Poor infrastructure and facilities
Medium farmers, Men and Women	<ul style="list-style-type: none"> Costly and not available in required quantities when needed Quality poor Lack technical knowledge and skills Credit not available as required 	<ul style="list-style-type: none"> Poor access to credit Poor technical back stopping including supplies of production inputs, Inadequate opportunities for commercialisation Inadequate grant and subsidies from the government High interest rate on bank loan Inadequate market information system Lack of ensured market Low prices of the product
Small farmers, Men and Women	<ul style="list-style-type: none"> Costly and not available in required quantities when needed Quality poor Lack technical knowledge and skills Lack credit facilities 	<ul style="list-style-type: none"> Lack of focused technical back stopping including supplies of production inputs Non-availability of government support and grant Weak technical knowledge base
Problems specific to women farmers	<ul style="list-style-type: none"> Lack technical knowledge and skills Costly Lack credit facilities 	<ul style="list-style-type: none"> Poor access to public and private sector technical support services Credit problem- particularly due to the lack of collateral Limited control over income from the sale of agricultural products High workload

2.2.3 Changes in Context since APP Implementation

50. There have been many changes since the APP was formulated that the APP-IAP will need to take account of. The most important of these are discussed in this section in the following order:

- Decentralisation
- Privatisation
- Conflict
- The proliferation of NGOs and CBOs, and
- International trade

Decentralisation

51. In 1999, a joint Review on decentralisation was undertaken by the Government (Ministry of Local Development, Ministry of Finance, National Planning Commission) and the donors (UNDP, World Bank, Danida, SNV, SDC and DFID). The review aimed at, among others, measuring the extent to which government and donor efforts (b) support the aim of having efficient and effective decentralisation and measuring the extent to which government and donor efforts (b) enable community mobilisation, empowerment and the strengthening of the role of civil society in local governments.

52. The above singled out three key areas that should deserve immediate action for facilitating the decentralized governance. These include (a) promulgation of the government strategy to implement the Local Self-Governance Act with a time bound national implementation plan for decentralisation reform, (b) the development of suitable local government finance system, and (c) establishment of a forum where donors, government and other stakeholders can discuss the key issues concerning donor programmes.

53. Many of the recommendations of the above review have either been implemented or are in the processes of implementation and the government is set to delegate its power and authorities to local elected bodies within the policy and legal framework provided by the LSGA 1999 and LSG Rules 2000. No matter the DDCs are without the elected local leaders, filled in currently by the nominated ones.

54. Regardless, above situation is not likely to remain for long. The government has already revised some legislation to facilitate local elections and carry out the municipal election. The government has embraced decentralization as a means to alleviate poverty, the overriding goal of the PRSP/10th Plan. This should provide the context/working environment for the APP in the district. Major activities carried out in the context of decentralisation are presented in Annex 2.3.

55. His Majesty's Government's 21 point reform package approved by the Cabinet met under the chairmanship of His Majesty the King in February 2, 2005 also includes, among others, gradual delegation of political, economic, social and administrative and quasi-judicial powers and authorities from the centre to the villages in order to provide maximum autonomy and powers to the local bodies as per the decentralization principles.

56. Likewise, in this fiscal year 2005/06, as a pilot programme, the government has selected 14 districts⁵, one in each zone, for full devolution (Annex 2.4) as to the spirit of the LSGA despite that these are led by the nominated local leaders. This indicates the government's determination for the decentralized governance, which is one of the four pillars of the PRSP. In the forthcoming fiscal years, the government is likely to expand the number of districts till all 75 districts within full devolution framework. All these developments suggest that reverting the country back to the centralized governance system is remote.

57. Above implies that decentralized governance is the context under which the APP is to be implemented, and APP agencies have no choice than to live with it, if APP is to be implemented effectively, and the district local leaders are to have their say and concerns addressed. However, APP-ISR indicates that central level agencies have responded the recent decentralization movement and LSGA differently, and found their ways either to obviate the decentralization framework or expand their centralized powers in the name of the strengthening decentralization.

⁵ Fourteen districts are Jhapa, Morang, Saptari, Dhanusha, Chitwan, Bhaktapur, Kaski, Rupandehi, Parbat, Dang, Banke, Kailali, Jumla and Kanchanpur.

58. Unless all government organizations responsible for implementing subcomponents of the APP operate within the same decentralization policy and legal frameworks and remain accountable to the local bodies to the same extent and spirit, implementation of the APP effectively will be distant.

Privatisation

59. Nepal adopted the policy of economic liberalization in 1991 and embarked upon a bold programme of privatisation of public enterprises. Subsequently, a 1991 policy paper on privatisation issued by the government laid the policies, modalities and administrative mechanisms for the privatisation of public enterprises. Since then, the development policy has been reoriented to identifying and removing the barriers for private investments, and creating conducive environment for private sector so that this crucial sector would play pivotal role in the national economy.

60. In 1994, the government brought out the Privatisation Act. According to this Act, the objectives of the privatisation in Nepal are to:

- Increase productivity of the enterprises by enhancing their efficiency
- Reduce the financial and administrative burden of the government
- Promote private partnership in the national development, and
- Generate additional revenue

61. Private sector development was an important part of the Ninth Plan Strategy, which also coincides with the APP implementation. With regard to the private sector development, the Ninth Plan (1997-2002) has provided the continuities to the policies, legal and administrative reforms initiated in the Eighth Plan. Since Eighth Plan, Government's economic policies are geared towards enhancing the environment for market - oriented/liberal economy with full participation of private sector.

62. While there have been many positive achievements in the private sector development during the Ninth Plan, political instability, the poor implementation of policies governing the private sector continued to be an important constraint on private investment during the plan period aggravated by attacks on business establishments and erosion of business confidence due to the implosion of some industrial sub sectors..

63. The tenth plan, while committing to establish strong and direct role of government in the backward and remote areas, has conceded to renounce such a role in those sectors and areas where private sector is interested. The plan requires shifting the role of public sector from the direct implementor to that of a facilitator and referee. The plan further aims to create favourable environment in which local bodies, private and other sectors can play effective role in the development process.

64. The long-term vision of the tenth plan on private sector development is to develop it as a focal point for the entire economic activities and the role of HMG will be confined to the policy making, monitoring and facilitating. Private sector will be made direct partner of the whole economic activities. For this, necessary strategies will be adopted to create a conducive environment, make policy and legal arrangements, and inculcate corporate culture in the private sector in order to develop a skilled, effective, responsible and competent private sector.

65. The APP also acknowledged above, and envisaged the private sector led growth in all of its four priority outputs- livestock, high value commodities, agribusiness and forestry, albeit in weaker terms and the roles and responsibilities prescribed to the private sector

differed by the nature of the output. As for example, it was highest in the agribusiness and the least in the forestry sub-sector. Expecting agricultural growth in the absence of competitive, dynamic and energetic private sectors will, indeed, be naïve in this present world of globalisation and fast developing modern communication technologies.

66. Nevertheless, in terms of private sector utilisation, mobilisation and development, the efforts of APP have remained sub-optimal. The APP-ISR noted APP as a public sector led plan with very little ownership from the private sector. On the other hand, sectoral policies formulated after the APP implementation have recognized the importance of the private sector and included several strategies to attract private sector investment such as Build Own, Operate and Transfer (BOOT) in the irrigation policy 2003, contract farming in the national agricultural policies.

67. The involvement of private sector while formulating policies and plans, encouragement rather than protection in trade and industrialization, and enabling the private sector for coping with the challenges and utilizing the opportunities in the aftermath of accession to WTO and SAFTA are among the major tasks now envisaged by the government for enhancing the capabilities of private sector. Indeed Nepal's entry into global trade bodies have added a new dimension in the private sector development of the country with all the underlying challenges and opportunities at the same time.

68. The conclusion of Kikeri and Kulo (2005), which they have drawn following the experience from the past several years of worldwide development and trends of privatisation, is no "one size fits all" approach in privatisation is important for Nepal. Privatisation is neither a panacea nor a universal solution that can be easily applied to all countries and sectors. Instead, policies and approaches need to vary taking into account sectoral and country circumstances, in particular market structures and levels of institutional development.

69. Meanwhile, fulfilling the 10th Plan commitment for the government sector to intensify its support and maintain direct role in those backward and remote areas where private sector has not incentives to work and so least interested to work is remote. The reason is the on-going nearly a decade old conflict, which has led the district, based government staff to become confined within the peripheries of district headquarters and their motilities are severely constrained. This necessitates the encouragement and development of the informal private sector also who is least constrained to move and work in such areas.

Conflict

70. Coincidentally, the conflict in Nepal initiated and grew with the APP. In the process, it had far reaching implications in APP implementation. The major effect was through the destruction of critical rural infrastructure so vital for effective service delivery. The escalation of conflict has added further challenges to the already difficult task of delivering service to people living in remote areas. While the true extent of impacts due to the Maoist insurgency will likely remain unknown until after the conflict is resolved, in Nepal the Maoist conflict has affected almost everyone to one degree or another,

71. According to a recent research⁶, nearly a decade old conflict has brought about a sharp fall in agricultural output and per capita income in Nepal. Available statistics show fall per annum GDP growth from 5.1 percent in the pre-war period (average for 7 years before

⁶ Economic Policy and Civil War in Nepal. Kishor Sharma. Paper for the WIDER conference on Making Peace Work, 4-5 June, Helsinki.

war i.e. 1987/88-1994/95) to 3.8 percent pa in the war period (7 year average for the war period i.e. 1995/96-2001/02). Non-agriculture GDP, which grew at the rate of 6.6 percent pa before the conflict, fell to 3.9 percent pa during the conflict period, while agriculture GDP growth stagnated at around 3 percent pa. Non-agriculture GDP fell sharply, primarily due to a fall in transport, commerce, hotel services and manufacturing.

72. The poverty and inequality are the two root causes of conflict, which need to be addressed carefully (World Bank 2005). But, in Nepal, in the present context, addressing the causes and consequences of conflicts is a challenge. The reason is that the government functionaries seem little prepared and poorly motivated to work in the villages and travel to the interior parts of the districts. The government staffs are usually confined to the district headquarters and their presence in the villages is almost none (Lama-Tamang et. al (2003), Seddon and Hussein 2002). The usefulness, effectiveness and efficiency of the district headquarters based service delivery approach are often questioned.

73. It is also not easy for INGOs and NGOs to deliver services in the villages either. As a result, some have consolidated their services around the district headquarters, others have suspended their activities for the time being and a few have partnered with local NGOs (L-NGOs) and CBOs who have been effectively working in the villages. Using local persons and residents have also become common.

74. In view of the above, the introduction of a flexible conflict sensitive service delivery approach has now become inevitable and urgent in Nepal.

Proliferation of NGOs and CBOs

75. After the restoration of democracy there has been a big surge in the expansion of NGOs and civil society organizations. The NGOs are broadly of three categories – the statutory NGOs, NGOs registered under the Association Registration Act, 1977 and NGOs affiliated with the Social Welfare Council. It has been estimated that over 20,000 NGOs are involved in implementing natural resource management activities. Besides, a number of professional NGOs are also working in specialised areas.

76. In Nepal, the policies and legal provisions encourage local people to form community user groups – the community based organisation – and such organisations have also formed their respective federations. For example, the NGO Federation, Federation of Community Forestry User Groups with offices in 71 districts, and the Federation of Water Users Association are involved in soil, forests and water conservation activities. HMG has also continued to strengthen NGOs and CBOs including Community Development Groups (CDGs) for soil and water conservation, and Buffer Zone Management Users Groups (BZMUGs) to implement natural resource management activities all over the country.

77. NGOs have taken on the role of articulating citizen's demand for services and have played a catalytic role in service delivery functions mostly through social mobilisation. They have helped a lot in raising the awareness of the people and thereby raising people's voices in securing their rights. Many NGOs have also contributed to augment transformation process in the society and fulfilling the local needs of the people.

78. Social mobilisation is growing in Nepal to manage natural resources. It has promoted ownership and genuine participation of the group members, consensus building, benefit sharing and accountability. The social mobilisers help the group members to pool and manage the financial resources, and raise skills and efficiency. This process has contributed to generate income and reduce poverty in some areas.

79. By involving NGOs, CBOs and private sector in recent past, the Government has already introduced polycentric institutional arrangements in service delivery. NGOs and CBOs are now enlisted in complementing the Government's service delivery functions and implementation activities. Public-Private Partnership (PPP) policy has been introduced to solicit ownership and support of civil society organisations and private sector in the delivery of services to citizens. The wider participation of COs/CBOs and NGOs/INGOs in the delivery of services to citizens is also emphasized in 10th Plan. This removes hurdles for channelling public funds to the local level through them.

80. In a recent study, New Era noted nearly 1,000,000 (23% of the total 4.25 million) households participating in different forms of social mobilisation groups. These households were spread over 1,107 VDCs (more than one fourth VDCs of the country) and 21 municipalities.

81. Likewise, local resource mobilisation through community organisations (COs) has also been found very impressive. For instance, the PDDP-LGP programme supported 16,813 COs with 360,891 participating households spread over 662 VDCs mobilised savings of over 572 million. Other than resource mobilisation, COs have been successful in the actual delivery of community services, such as literacy, public health awareness programs, drinking water and sanitation services, community forestry, income generating micro-enterprises, etc. They are also influential in articulating collective service demands from LBs.

82. Despite of the above, as noted by Khanal (2004), many of such organizations are often found working either in a non-transparent way or devoting most of the time in advocacy type programmes. Therefore, they are often blamed for being instrumental in creating mismatch between the people's expectations and fulfilling the people's needs.

83. Furthermore, clear formal links between LBs and non-government entities is yet to be developed and institutionalized. Concerns are often raised on how to allocate responsibilities between the two (LBs and NGOs-CBOs). LSGA has clearly laid out LBs' responsibility to provide socio-economic services and infrastructure. Similarly as per the Decentralisation Implementation Plan (DIP), sectoral functions are to be devolved to LBs. Therefore, the challenge is to reset institutional linkages by specifying the role of LBs, community groups, and NGOs in the provision and delivery of services. The government has approved a strategy to coordinate NGOs at local level which includes compulsory submission of audit report, requirement of recommendation from LBs for renewal, and reflection of NGO plans and programmes at local level. These seem focused on controlling aspect than on facilitating them to operate freely and proactively in support of the poor and marginal groups. NGOs role in service provisioning needs to be delineated and facilitated.

International Trade

84. The APP overtly rested on the plank that it has infinite market for its exports in the Indian and Chinese markets. Hence, no specific trade mechanisms were planned. The performance shows that the agricultural imports have risen to about 10 percent of its GDP in 2003/04 whereas the export hovered around two percent. That is, the exports have belied the APP expectations. This has to be reversed without delay.

85. The operating regimes in trade have witnessed massive changes since the formulation and the beginning of APP implementation. The changes in the trade regimes have been elaborated in the APP-ISR. The basic changes are in the efforts for globalisation and liberalization of trade as reflected in the emergence of new global and regional trade institutions such as WTO. Nepal became the member of WTO in April 2004, founder member of SAFTA since its beginning (2004), and member of BIMSTEC since February 2004. These memberships have implications on the national policies and institutions relating to agricultural trade.

86. The plus-points from above memberships for Nepal would be as follows:

- WTO provisions are frequently given more importance because it is comprehensive in terms of (a) market access, (b) Trade related intellectual property rights (TRIPs), (c) sanitary and phyto-sanitary (SPS) measures, (d) Special and differential (S & D) treatment of LDCs. WTO provides extra leverage in protection for LDC like Nepal;
- SAFTA is expected to augment intra-regional trade by 1.6 times from the existing levels. These gains would mainly accrue to the smaller members of the SAARC since they would gain access to the relatively larger markets of the larger members;
- BIMSTEC covers agricultural trade and Nepal can benefit from longer term tariff rate concessions under MFN among the member countries;
- The membership of Bangkok Agreement (BA) will provide tariff concessions for Nepal under preferential trade arrangements with its members, particularly China.

87. These plus-points, however, would not come without meeting the respective compliance requirements particularly with respect to WTO membership. These will be as follows:

- Adjust tariff rates (including conversion of non-tariff measures to tariff) in line with WTO specifications for the LDCs;
- Align aggregate or product specific measures of the support to the farmers with WTO specification;
- Improve in the areas of TRIPs and SPS.

88. The first two of these requirements are not demanding as the tariff rates are already lower and within bounds and support levels could be further increased and be still within specification. However, there are a lot of remaining works to comply with the TRIPs and SPS. The commitment of Nepal in terms of these compliance requirements is provided in Annex-2.5

89. The Tenth Plan (2002-07) proposes a number of strategies to address trade issues:

- ♦ Industrial promotion in accordance with WTO, WIPO, SAFTA agreements,
- ♦ Industry competitiveness to be increased by cutting down costs of production and transportation, administrative hassles and red-tapism,
- ♦ Encourage industries with more backward and forward linkages.
- ♦ Concessions would be made for micro, cottage and small industries.
- ♦ Small and medium scale processing industries will be established to process and export locally available natural and other resources,
- ♦ Inter-relationships between agro, forestry and other service oriented industries will be promoted to increase the exports,
- ♦ Competitiveness of exportable items will be enhanced by promoting foreign investment and technology.

90. The challenges facing Nepal in international agricultural trade are most relevant where they relate to India and China.

91. India has the largest trade relationship with Nepal. Four states of India namely Uttaranchal, Uttar Pradesh, Bihar and West Bengal share open borders with Nepal. Although border custom points on either side implement the trade agreements, the informal cross border movement of agricultural inputs and commodities is dominant between the two countries. This is the source of policy leakage for both countries. The formal trade in agriculture between Nepal and India is dominated by the latter as seen by huge net imports from Nepal of virtually all agricultural inputs and commodities. In 2003/04, total agricultural imports were nearly five times as high as the agricultural exports. This is indicative of the lack of competitiveness of Nepalese agricultural products with India. The major factors governing this lack of competitiveness in agricultural trade of Nepal vis-à-vis India are:

- Gradual overvaluation of the Nepalese currency (which is pegged with the Indian currency) due to consistently higher growth performance in India;
- Higher agricultural productivity for almost all crops in India due to strong national agricultural research and extension system;
- Continuing subsidy and support for agricultural inputs and subsidies;
- Economies of scale in production and processing of agricultural commodities in India;
- Relatively lower unit cost of transport of agricultural inputs and outputs due to massive expansion in various forms of access infrastructure; and
- Land locked position of Nepal causing agricultural trade with third countries more expensive.

92. India has attained surplus in food, oilseeds and horticultural production and it is importing only pulses (mainly large chick peas) from other countries. So normal agricultural net export possibilities from Nepal to India are bleak until the foreseeable future.

93. A major challenge for Nepal, therefore, is to defy these odds in agricultural trade with India and the third countries. The challenges are:

- Erosion of the relatively quality-insensitive North Indian market
- Recently, India is pursuing the development of pulses and HVCs on a campaign scale including in the States bordering Nepal. This may erode some of the remaining advantages
- Possible policy and leakages due to open cross-border trade.

94. The People's Republic of China is emerging as a further factor in Nepalese agricultural trade although currently not as dominating as India. But China may represent true competitive factor in the future because of its current pace of agricultural development. Chinese apples are entering Nepalese markets at prices cheaper than Indian and Nepalese apples. Tibet region of China is already dominating Nepal in cheaper carpet wool production. Like India, China's edge over Nepal comes from the development of the transport network in the Tibet region of China, research superiority and economies of scale.

95. The challenge for the APP-IAP is to tie these complex issues into a coherent way forward in which trade issues are responded to as needed, but in which it is recognised that

the international trade rules should not be used inappropriately to drive in-country agricultural development processes where they are not relevant.

2.3 From Analysis to Action

96. This section of the APP-IAP has established the agenda for the issues the APP-IAP must address if it is to be more successful than APP implementation to date. It takes as its inputs three factors:

- The difficulties faced by government in enabling agricultural development
- The priorities of different types of farmers in their pursuit of development, and
- A number of significant changes which need to be taken account of in APP-IAP planning and implementation.

97. The discussion of these issues in this chapter leads us to have a better perception of the problems to be fixed by the APP-IAP. The rest of the report is concerned with moving from problems to solutions – mapping out ways in which these issues will be addressed in practice.

98. The first stage of this transformation from problems to solutions is to develop an overall framework and approach, and this is described in chapter 3. Chapter 4 then elaborates on specific strategies by which key issues are to be addressed, chapter 5 delves into institutional arrangements and chapter 6 turns these strategies into specific actions for key APP sub-sectors.

3. Strategic Framework for APP – IAP

99. The analysis in chapter 2 indicates the need for the APP-IAP to structure the new way forward for the APP by departing in some areas from the APP formulated in early 1990s and to accommodate recent changes, fit to the PRSP/10th Plan, and improve the quality of implementation. Therefore, building on the APP, this chapter presents a strategic framework for the APP-IAP with the following three elements:

- Objectives and strategies of the APP-IAP
- APP-IAP principles, and
- Design features of the APP-IAP

3.1 Objectives and Strategies of the APP-IAP

100. The **overall objective** of the APP-IAP is:

to maximise the contribution of agriculture to Nepal's national goal of poverty reduction.

At an overall strategy level it does this in very similar ways to the APP document⁷ (Annex 3.1)

101. The **overall strategy** pursued by the APP-IAP, through which it seeks to achieve its objective, is to achieve broad-based and equitable agricultural growth with direct and indirect impacts on poverty.

- Direct impacts on poor and non-poor farmers will be achieved through an enhanced contribution of agriculture to their livelihoods and businesses;
- Indirect impacts on rural and urban poverty will be achieved through rural growth linkages, increased employment, and possibly lower food prices.

102. **Specific strategies** include:

- Addressing weaknesses in the (public sector) supply side – by, for example, improving sector coordination, improving policy and strategy, improving management and the various other constraints to efficient functioning of the public service.
- Addressing the requirement for investment, by mobilising multiple sources of local and national funds, by exploring innovative ways of low-cost service delivery, and lobbying for priority for agriculture in the national spending cycle.
- Enabling the private sector to provide the desired services, since the key role of government is to enable development, and many of the services required by farmers will need to be provided by the private sector.
- Improving local level plans, because the effectiveness of these will be a major determinant of the success of the APP-IAP.

⁷ Instead of setting a new poverty reduction target, the APP-IAP aims at catching up with the APP target of reducing the proportion of rural poverty by half and bringing down the poverty level to 14% by the end of 2014/15 from that of 49% estimated at 1991/92, since setting up new poverty reduction target implies writing a new APP which was neither mandated to the TWT and the Consultant, nor it was possible within the limited time period and resources available.

- Facilitating different types of farmers to improve their agricultural performance in appropriate ways, through a variety of mechanisms each of which are informed by local realities.

3.2 APP-IAP Principles

103. In order to be explicit on expectations of the APP-IAP and to ensure minimum standards of implementation, the APP-IAP adopts a number of principles. Some of these principles might be applicable beyond the APP since they are derived from the principles of good governance and current perceptions of good development practice. The APP-IAP will not compromise on the general principles. The principles are as follows:

104. **Transparency.** All organisations (public, private, NGOs and CBOs) are expected to perform transparently and to the highest standard. All APP agencies will have transparent Standard Rules of Operation (SROP).

105. **Accountability.** Despite Nepal still not having an Accountability Act, all organisations and their personnel will be made fully accountable for their actions and activities. Non compliance with the SROP will be punished as per the existing law of the land. For this, local people will be made fully aware of their rights and enhance their capacities to claim their rights. This will also be complemented by the promotion of organised advocacy groups on the demand side.

106. **Evidence-based policy and planning.** Policies and plans which are not well analysed are prone to failure. Similarly, unless the planning process is based on realities then it is likely to be misguided. This principle of evidence-based policy and planning is adopted in order to improve the quality of policy-making and planning of Nepal's agriculture sector.

107. **Responsiveness to differences between target groups.** As was discussed in chapter 2, there are differences between the farmer clients of the APP-IAP and it is important to understand these differences in order to develop appropriate policy and development interventions. All organisations and staff will be oriented to be fully responsive to their target groups.

108. **Plurality of service providers.** Service delivery will be made competitive with the provision of pluralistic institutional arrangements. Comparative advantages of the different institutions and organisations will be fully recognised and utilised as appropriate.

109. **Gender mainstreaming.** Roles and responsibilities of men and women, and their social relationships will be fully recognised and policy, programmes and projects will be implemented to strengthen social relationships and improve access of women to resources and control over decisions and sharing of benefits at households, community, district and national levels.

110. **Social inclusion.** All programmes and projects will be assessed in terms of how these are supportive to the development of poor, vulnerable, and disadvantaged groups (dalits and women) and that they will have provisions for their effective inclusion. Any projects and programmes which will directly displace or cause to be displaced will be revoked.

111. Social exclusion matters to the APP-IAP because it causes poverty and gets in the way of poverty reduction. It causes poverty in two main ways- first by causing the poverty of particular people, leading to higher rates of poverty among affected groups, and secondly by

reducing the productive capacity – and rate of poverty reduction – of society as a whole (DFID 2005).

112. **Environment conservation:** All programmes and projects need to be friendly to the environment and protective of agro-biodiversities of the country. APP-IAP will not allow environment degradation and the loss of biodiversity from human activities.

3.3 Design Features of APP-IAP

113. This section outlines a number of the design features of the APP-IAP. The design features ensure that there is a mechanism by which principles are likely to be applied, and also address some of the agenda set by the analysis in chapter 2 of this report. They are as follows:

114. **Comprehensive.** The APP-IAP is a strategic framework document, which is translated into an action plan. It adopts a comprehensive approach to addressing issues within the sector in order to avoid the difficulties of interpretation of the APP, which prioritised certain activities but did not elaborate on how to deal with issues outside these priorities.

115. **Multi-sectoral.** In common with the APP the APP-IAP recognises that agricultural development is the product of the work of several government Ministries, including those responsible for agriculture policy and services but also roads, financial services, land, irrigation, education and others. The APP-IAP is therefore multi-sectoral, and requires the active engagement and coordination of several Ministries. As such it is a national plan for Nepal, not a plan for the Ministry of Agriculture and Cooperatives alone.

116. **Demand-led.** As discussed earlier the role of the APP-IAP is to enable Nepali farmers to do better. It does this by following systems for understanding clients and responding to their priorities.

117. **Flexibility and dynamism.** The APP-IAP is based on enabling the delivery of the inputs and services that farmers need to allow their agriculture to thrive, whilst applying a strategic approach to sector development. The approach adopts dynamic assessment and planning which allows policy and planning to adapt rapidly to changing contexts so that the APP-IAP should not readily become out of date.

118. **Nested.** The agriculture sector cannot plan in a vacuum – it must be driven by national development priorities. The APP-IAP is designed to contribute to the current set of wider national goals. If those change then the APP-IAP will need to be realigned. The flexibility in the current design will allow this without a complete revision being necessary.

119. **Institutionalised.** If systems are to be sustainable then their important aspects need to be brought within the prevailing rules of the game; they need to be institutionalised. The APP-IAP aims to institutionalise all its key aspects, such as those for analysis, planning, coordination and feedback.

120. **Decentralised.** In line with the trend for decentralisation in Nepal much of the APP-IAP is implemented in a decentralised way. Linkages between the decentralised bodies and the national level are also defined.

121. **Clear roles of different actors.** One of the implementation problems of the APP was that roles of different actors were not clearly understood. The APP-IAP is explicit in defining

expectations of different types of organisations, and especially ensuring that government knows its role and delivers on it.

122. **Conflict.** Conflict is unfortunately a part of the current reality of working in Nepal. The APP-IAP is designed so that unrealistic assumptions about working in conflict are avoided, and mechanisms are adopted which are most likely to work in practice.

In Conclusion

123. This chapter has outlined the APP-IAP strategic framework. The set of objectives, strategies, principles and design features define a dynamic understanding of expectations from APP-IAP and that all the public and private actors are expected to contribute to it accordingly.

124. The APP-IAP is designed as a dynamic framework whose messages should persist beyond the direct application of the action plans that will be presented in chapter 5 of this document. Before then, chapter 4 outlines the overall structure of the APP-IAP processes, and defines a number of significant component strategies that together comprise ‘the APP-IAP approach’.

4. The APP – IAP Approach

4.1 Introduction

125. Having set the framework for the APP-IAP in the last three chapters in general and chapter 3 in particular, this chapter outlines the overall structure of the APP-IAP processes, and defines a number of significant component strategies that together comprise 'the APP-IAP approach'.

126. As APP-IAP has attempted to accommodate reforms underway in (a) overall government policies such as the trade liberalization, private sector development policy, poverty reduction strategy paper/10th Plan, decentralized governance, medium term expenditure framework, institutional polycentricity, (b) sub-sectoral policies such as National Agricultural Policy 2004, Rural Infrastructure Policy 2004, Irrigation Policy 2003, Revised Forest Policy 2000 and (c) consequences of recent events such as on-going conflict, deterioration of peace and security situations, membership to the world trade bodies such as the WTO, SAFTA and BI-MSTEC, and more importantly farmers' increasing demands and claims for better services (quality and quantity), it was inevitable to update and amend the original APP strategy's seven components (Annex 4.1)

127. However, the ***seven components of APP strategy have not only provided a basis to the APP-IAP strategies and processes, but also key concepts of the APP-IAP are derived from these components. This implies that APP-IAP strategies could be viewed both as an extension of APP strategy and also the translation of the APP strategy into practice, updated for the current context.***

128. APP-IAP strategies and processes are not static, these need to be revisited, revised, amended or reformed and even thrown away as and when needs arise – but if necessary this should always be based on thorough analysis..

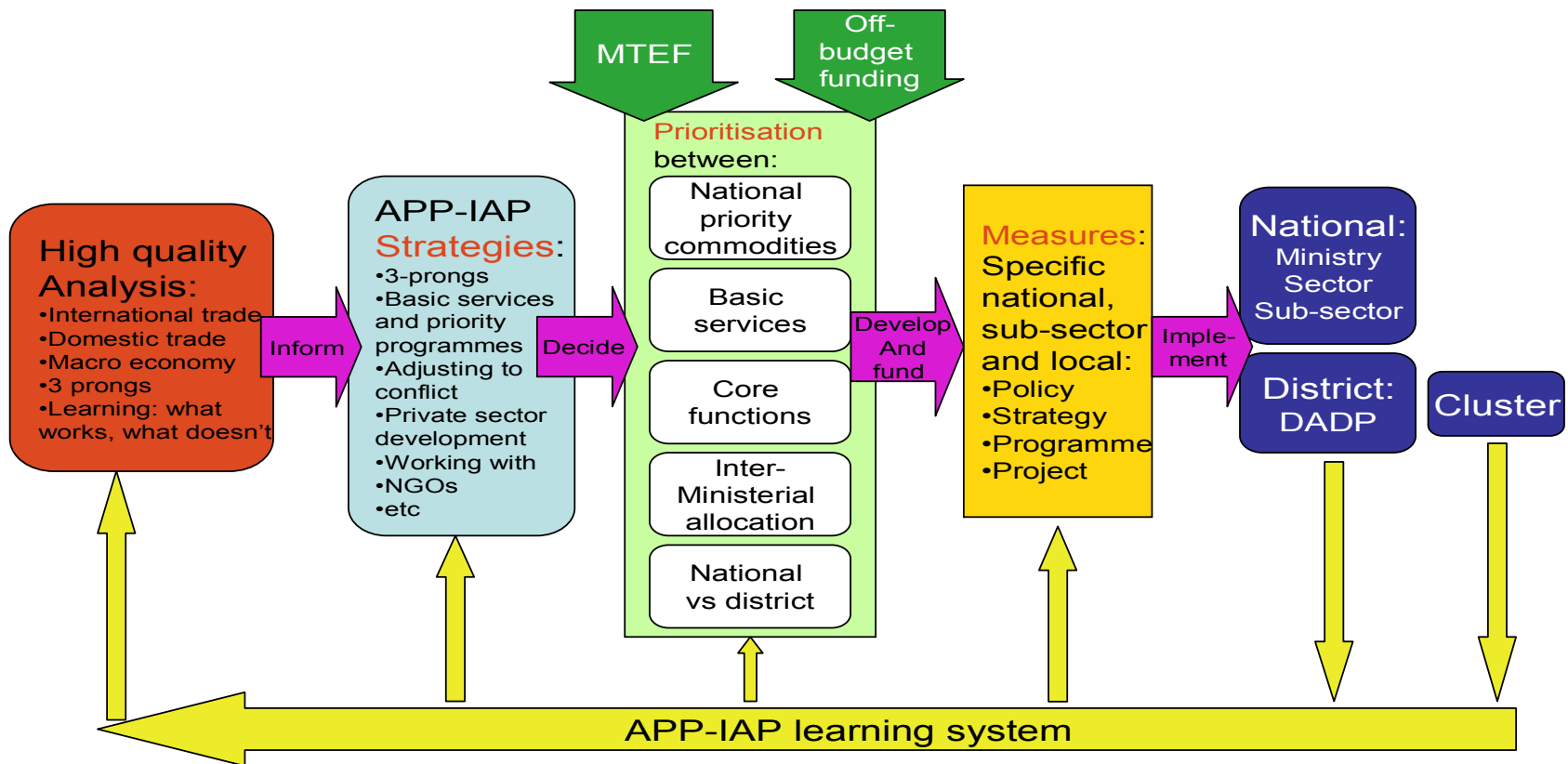
129. Before discussing each specific strategy in turn, which the APP-IAP has adopted in order to address the agenda set in chapter 2, Figure 4.1 presents an overview of the APP-IAP approach, which illustrates how the different specific strategies are interrelated and interconnected, with one another.

130. As seen in the figure 4.1 below, the APP-IAP envisages the continual development, reform and refinement of sub-sector strategies at national and district level; formulation of annual district agricultural development plans; and use of the clustering approach to implement it at the district level (see DADP Bara (Volume 2) for details on the cluster approach.)

131. In short, the APP-IAP banks on high quality analysis where crucial decisions are warranted such as international trade, domestic trade, microeconomic policy, policy reforms along three pronged service delivery approach, and targeting, based on firm evidence. These analyses will ensure appropriateness of APP-IAP strategies. The evidence-based application of strategies, in turn, will provide a basis and reasons for making decisions with regard to the allocation of funds within and between national priority commodities, basic services, core functions, different APP-IAP Ministries, and between national and district levels. Based on these funding allocation decisions, specific measures or activities – including policy measures and new strategies – are developed, funded, and implemented at national and district levels. From this description it is clear that the APP-IAP is envisaged as a national level document rather than one which is applied at Ministry level alone.

Figure 4.1: An Overview of the APP-IAP

An overview of the APP-IAP



132. With the implementation of the DADP and national policy adjustments, programmes or schemes, the cycle will repeat again. The APP-IAP framework is thus rooted in learning and relearning, sharing of experiences, knowledge and information at different levels, central and district, and between different groups of actors and stakeholders – public, private, CSOs and farmers. The keys to the APP-IAP framework are learning, relearning and reform (LRR).

133. As each of the six boxes in the figure describe the APP-IAP framework, the remainder of this chapter discusses the strategic elements within each box. The six boxes are:

- a) Analysis
- b) Strategies
- c) Prioritisation
- d) Measures
- e) National schemes/projects and the
- f) District Agricultural Development Plan

134. However, for the sake of avoiding duplication and repetition, strategic elements within strategies, prioritisation and measures are lumped together.

4.2 Key elements of the overall APP-IAP Strategy

4.2.1 International Trade

135. No country in the world has been able to produce everything that it needs to sustain and develop. So the trade with other countries is inevitable, Nepal being no exception. However, APP-IAP believes that international trade considerations will not be important for all its agricultural activities and that a targeted strategy will be needed. The broad goal of APP-IAP in international trade will be to achieve net surplus in agricultural trade. To achieve this goal, it will pursue the following strategies:

Recognising Well-informed Dynamic Comparative Advantage as the Basis for International Trade

136. The basis for international trade will be the comparative advantage in the overall context of economic liberalization with due recognition of all trade related global conventions of which Nepal is a signatory, and of multilateral and bilateral institutions of which Nepal is a member. These relate to memberships of WTO, SAFTA, BI-MSTEC and Bangkok Agreement (BA). The government will fulfil basic compliance agreements in these respects as per the agreed schedule.

137. Comparative advantage is a dynamic concept and hence the precise trade components cannot be determined *a priori*, a fact overlooked by the APP. Best professional brains are needed to continuously analyse the scenarios (prices, events) and project the international trade outlook including, of course, the macro-economic policies such as exchange rates, which influence the comparative advantage. APP-IAP has proposed CAAS as a conglomerate of such professionals (Chapter 6), which will continuously feed the analysis into the government's agricultural development policy system to update its international trade portfolio and strategies. The dynamism means that the government should remain ever alert to reform the policies quickly in the event of changed context.

Utilizing the LDC Advantage for Protection

138. As a Least Developed Country (LDC), Nepal is entitled to higher support and protection in trade as long as it remains in this status. This is an opportunity to use these internationally allowable limits to protect some of its basic agro-based activities (e.g. rice and poultry industry) and enhance competitiveness of other activities (high value crops). The protection rule will be to use the available domestic resources⁸. The opportunity will also be subject to evidence-based analysis to be performed by CAAS and fed into the government system.

Pursuing Selective Stance

139. APP-IAP will only focus on selected commodities, following the analytical process described above, for international trade purposes. This will mean that the product standards need not be defined and applied universally. The standard specification and compliance will be limited only to the commodities prioritized for international trade, and only then for that part of the commodity market that can realistically be traded internationally. Where standards are warranted, Nepal Standards may not be enough and credible for certain commodities. So, such standards can also be adapted from the international standards of various countries (e.g. Australian NASA standard for coffee) to improve the credibility of the product in certain markets. The implementation of such adapted standards, however, will be expensive if quality inspection is carried out by the international experts. Hence, local inspectors must be developed for each standard to reduce inspection costs.

Linking International Trade Commodities to NPCs and DPCs

140. Both the above processes will guide the prioritisation within APP-IAP. For such prioritization to be effective, the decisions resulting from the evidence-based analyses will be percolated deep down into the local level production planning through the system of agricultural extension and will be built into the system of conditional grants to local bodies with a system to receive feed-back.

4.2.2 Domestic Trade

141. Domestic trade is a precursor to the international trade and will be more important in APP-IAP to extend the benefits of the market and trade to even those poor and marginal producers whose production systems are not always targeted to the markets. Local markets also absorb some risks in production, particularly of the perishable commodities.

Recognising Well-Informed Dynamic Comparative Advantage as the Basis for Domestic Trade

142. Domestic trade is not different to international trade in terms of principles and dynamic comparative advantages except that these are not strictly enforced through border control and tariff systems. Regional, district and household comparative advantages will guide regional, district and household priority commodities, production systems and trade. As in the international trade, evidence-based analysis will be equally important.

Bringing More Products to Marketing and Processing Chain

143. This will be done through linking commodity production to consumer needs, expansion of marketing infrastructure (access, storage facilities, market yards, etc.),

⁸ For example, if Nepal abandons rice farming because cheaper rice can be imported, then the marshy paddy lands, where virtually no other crops can be grown in wet season, will remain unused.

developing the system for market and price information, attracting private sector for investment in processing with enabling measures (see also private sector development).

144. The government will take the responsibility for the public goods part of the trade prerequisites such as roads and market yards and will also ensure unrestricted movement of the people and goods, which are not only necessary for trade efficiency through the reduction in transaction costs but also in changing the comparative advantage scenario.

Developing the Private Sector

145. Trade is most directly linked to private sector development, which has been dealt separately. The government has the additional responsibility of providing a level playing field to the private sector in trade through measures such as lifting market and price influences by a government subsidiary.

Meeting Differentiated Consumer Needs

146. Many domestic consumers in Nepal have begun to realize the importance of standards for safer consumption although a large segment of the population does not care for it. Those who are seeking standards are willing to pay more for the standardized products. For example, many people are paying more than the price of milk for the bottled mineral water. Even the non-standardised products require compliances for the general health and safety of the citizens. For this, the national standards have to be defined for extended list of products and implemented. This will call for an upgraded institutional arrangement equipped with necessary laboratory/testing facilities and standard certification processes.

4.2.3 Macro-Economic Policy Framework

Macro-economic policy sets the investment environment in the country and hence its appropriateness determines the favourable outcome. So, the only strategy in this context will be:

Ensuring Agriculture-friendly Macro-economic Policy

147. What is agriculture friendly and how this will be done? First, agricultural development needs more public sector financing⁹ which is a macro-economic decision currently made by MOF without transparent allocation rules based on sufficient analysis. Not only does it need more allocation, it also demands higher predictability of allocation among its various sub-sectors. The section on investment and financing (Chapter 6) elaborates on why and how this must be done.

148. Secondly, there is a current tendency to have ambitious budget size based on deficit financing which, if not financed by grants, is bound to have high inflationary pressure on prices and interest rates – not conducive for investment in agriculture and certainly not favourable for the poor. Fortunately, this is partially contained by the MTEF prioritisation process. Hence, a tighter fiscal policy that will have reasonable inflation and interest rates is the requirement for agriculture. Since fiscal and monetary policies are linked, a tighter fiscal policy will also mean a tighter monetary policy producing the same outcome.

149. Thirdly, since APP-IAP banks on net agricultural trade surplus, the appropriateness of real exchange rate is another macro-economic policy dimension for the competitiveness

⁹ Note that this does not necessarily mean more funding to MoAC, but to agriculture more generally

of not only agricultural commodities but of all internationally traded products. There is, therefore, a need to monitor and adjust the exchange rate to be par at real terms in order to maintain and enhance the competitiveness. A special study on the effect of exchange rate pegging with the Indian currency and its implication on agricultural trade is urgent.

4.2.4 Three Pronged Service Delivery

150. As has been discussed in Chapter 2, it is of paramount importance to distinguish different types of farmers, and adjust policy and service delivery methods and approaches accordingly after thorough analysis.

151. If the strengths of the Nepalese agriculture are to be exploited in the changed situation of globalisation and to address the root causes and consequences of conflicts, it is necessary that the service delivery approach be holistic, participatory and reformed in a way that all types of farmers will have access to and control over the service providers – be it public, private or CSOs. Failure to address the concerns of certain sections of the population through legitimate processes is often a key precursor of conflict.

152. Analysis of international trade, domestic trade and macroeconomic policies is necessary but not sufficient. These analyses usually provide the broader context, indicate possibilities, opportunities and constraints, but hardly address the problems, needs and issues of the poor and extremely poor farmers. Rural communities are not homogenous, but comprise different types and categories of people.

153. The risk bearing capacity of different farmers are different based on their control of assets and incomes. Poor farmers characterized by low asset and income levels generally pursue a risk-averse strategy rather than an income maximization strategy. The notion of **risk threshold** provides a mechanism to distinguish different types and categories of farmers. Table 4.1 below shows how small scale Nepali farmers could be distinguished into three types based on the poverty level.

Table 4.1: Categorisation of the Farming Households Based on Poverty Level

Poverty level	Vulnerability level	Existing categorisation system		
		International	Food security	Land
Extremely poor	Extremely Vulnerable	<1 \$/day	< 3 months	<0.5 ha
Poor	Vulnerable	<1-2\$/day	<3 to 11 months	0.5 -1 ha
Non poor	Non-vulnerable	>2\$/day	>12 months	>1 ha

154. The table above suggests that neither the international categorisation system alone nor food security and land holding alone are good indicators for categorising Nepalese farmers into different categories based on the poverty level. This further reflects a multi-dimensional view of poverty that recognizes not only the income dimension, but also social, human and structural dimensions of poverty.

155. The purpose of suggesting the three pronged strategy is simple and straight. It is to emphasize that the APP-IAP focuses on all types and categories of farmers, and to argue that the 'one size fits all' approach will not be appropriate to address the underlying differences.

156. Of the three prongs envisaged by the APP-IAP, the first refers to extremely poor, vulnerable and disadvantaged groups which might require some kind of social protection in order that they would be able to carry on their lives and also receive an opportunity to move towards the second pronged target group. Unless this happens, the principle of inclusion and

targeted support to the poor will be remote. National statistics show about 17 percent of the population as ultra-poor, which resembles this category.

157. The second refers to those poor and small farmers who are rather different from the extremely poor or highly vulnerable group and the non-poor again, based on the same risk threshold notion discussed earlier. Their proportion in the population is about 15¹⁰ percent. This group will need enabling and access to better services more than direct support. The service providers will intensify their support and services in a way that they will have sufficient options and opportunities to improve their livelihoods, receive quality and timely services. The purpose is to enable them to diversify their farming business, to get good harvests, live with dignity and prosperous life, and sustain income in order that they may move up to the non-poor group and the likelihood of falling down to the extremely poor will be minimised.

158. The third or the non-poor group refers to all farmers above the threshold of being able to take risk by investing in risky ventures like new seeds. It is a big group (about 68%) not a small one, and includes small farmers who are not poor but also the semi-commercial and commercial farmers. The purpose here is to support them in order that they would be encouraged to search and identify new markets for their products, diversify their business and be able to support the second prong and even the first (ultra-poor) prong categories of the target groups.

159. While it may be time-consuming to categorise the total households living in a particular geographical area into the abovementioned three typologies in a mutually exclusive fashion, the importance of distinguishing them from the perspective of policy targeting is critical to the success of the APP-IAP.

4.2.5 Three Pronged Targeting

160. While there exist plenty of arguments in favour and counter arguments against “universalism” vs. selectivity through “targeting”, the position of the APP-IAP in this regard is clear, and follows a direct targeting approach through adjustments in policies, investments and activities that would be specifically aimed at three different categories and types of target group – the **extremely poor**, **poor** and **non-poor** as discussed above. This, however, does not directly correspond to the notion of targeting used in PRSP/10th plan.

161. Targeting is one of the major strategies of the APP-IAP, as has been argued, envisaged and endorsed by PRSP/10th Plan (2002-07), in the context of Nepal’s current agricultural development in general and that of the on-going conflict in particular. The other strong reason for targeting is the need to address the consequences of the past 50 years of development strategies and methods, which are often censured for institutionalising social exclusion.

162. Achieving APP-IAP’s objective of maximising the contribution of agriculture to the country’s overriding poverty reduction goal would be difficult if not impossible, should the APP continue solely with the universalisation approach of the past years – similar to the view that **“the rising tide raises all boats”**.

163. Limited fiscal resources call for targeting the resources to the “deserving poor”. As defining “deserving poor” is a problem, APP-IAP suggests careful analysis, tight monitoring,

¹⁰ Since the total poverty level as per NLSS 2004 is about 32 percent in Nepal, the two extreme poor and poor categories should add to this figure (17% ultra-poor and 15 percent poor). Hence, the non-poor would amount to 68 percent. However, land based or other categorization may yield different proportions with probably much higher poverty incidence.

transparency and accountability, rather than to continue with the universalism approach by keeping in mind how difficult it would be to administer the targeting approach. Improved targeting means that more poverty reduction could be achieved with less expenditure, and implies the need for policy reforms, and the undertaking of micro and area based agricultural schemes targeting different prongs. This also implies the need for provision of sufficient safety nets for extremely poor and vulnerable groups, if needed.

164. In short, what the APP-IAP promises is “ **targeting within universalism**”, in which extra benefits or facilities could be directed to extremely poor groups (poorest of the poor¹¹) within the concept of positive discrimination, and the framework in which all small scale poor farming households will get an equal opportunity to participate and benefit from the policies, projects/ activities implemented by the different APP sub-sectors.

165. While the purpose of targeting is to ensure access of all types and categories of APP-IAP target groups to the services and facilities and their control over these, it is not only about implementing projects and programmes in favour of certain groups of people, but also it implies making sure that policy internalises the needs of the poor. **Targeting within universalism** is proposed with the recognition that, in Nepal, small and marginal farmers are important contributors to aggregate poverty and that poverty in Nepal is rampant and is overwhelmingly rural, with more than 80 percent of the poor living in rural areas.

166. Targeting for poverty reduction is not a new strategy in Nepal. Many projects/programmes are using it. For example, the Livelihoods Forestry Programme (LFP), a bilateral aid programme of HMG/N and the DFID which was started in April 2001 in 15 districts of Nepal mobilises about 10-15 percent of the total CFUG fund in poor focused activities like revolving fund, scholarship, emergency fund, disaster victims support etc as a part of its activities for poverty targeting through community forestry management. And beneficiaries are selected through the process of wealth ranking (DFO, Baglung, Parbat and Myagdi).

Box 4.1 below briefly describes the different poverty targeting mechanisms/processes. Based on potentialities, needs, demands, and district specialties, a central or district organization may choose any of the four or in combination of these targeting processes. Indeed, much can be done to tackle the issues of targeting through the policy reform and budgetary processes.

Box 4.1: Poverty Targeting Processes

Self-targeting: Refers to such types of schemes or policies which rely on differential incentives of agents in tackling the problem of asymmetric information between the principal (the government providing poverty relief) and the agents (households or individuals affected by the government schemes). The design of the schemes has the objective of making the scheme worth participating in only for those who are poor, not for others.

Activity targeting: Relies on “broad” targeting, primarily through subsidized provision of goods and services whose benefit incidence will be progressive, i.e., falling largely on those poor rather than better-off. Examples typically include primary education, provision of primary health care and basic health services in rural areas, and broadly targeted subsidies for irrigation, power and fertilizers.

Location/Area targeting: Based on geographical distribution of poverty, seeking to target interventions in geographic areas with high concentration of the poor.

¹¹ Identified by some rigorous methods using very transparent and objective criteria, defined by local people themselves.

Indicator targeting: Relies on non-income indicators that are meant to be correlated with poverty. These can include lack of or size of ownership of land, form of dwelling, social status, gender of head of households, etc.

Source: ADB Institute Discussion Paper No. 5 Poverty Targeting in Asia: Country Experience of India February 2004

167. Last but not the least, the purpose of targeting within the APP-IAP framework is to recognise the problems faced by different types and categories of groups and to target them accordingly. Targeting does not mean that the APP-IAP will focus on only extremely poor and vulnerable groups. But it equally addresses the needs and problems of other groups-poor and non-poor through whatever the means be - policy reform or adjustment, investment projects or social protection based on evidence based planning, gaining understanding, making specific measures for different needs, and generally avoiding one size fits all solutions.

4.2.6 Private Sector Development

168. APP-IAP is not conceived as a sole public sector initiative. In fact, the commercialisation part of the APP-IAP is basically private sector-led. The quest for private sector involvement in agricultural development is the utilization of their two basic strengths - efficiency and flexibility in operation; and for sharing the investment needs. APP-IAP seeks private sector involvement in agriculture for production, trade, service delivery and investment using their above strengths.

Categorization of Private Sector

169. Private sector in agriculture is involved in the form of producers, traders and consumers. In this section, their roles as producers and traders are dealt. There are primary producers (farmers) and value adding producers (processors), with a range of operation scale. They vary in terms of risk internalisation, which is more or less directly correlated to the scale of operation. For example, **small primary producers are generally risk averse and often have a livelihood security strategy dominant over profit maximization** as opposed to large primary producers who are able to take risks for their profit maximization objective. Both of these may be **formal**, that is organised (registered) and **informal**. There are pros and cons of both the formal and informal existence. The former is tractable and can be easily bought to the overall tax net but the operational flexibility is higher in the latter.

170. The processors and traders can also be identified as small, medium or large; formal or informal; and risk averse or risk taking.

171. **The objective of this distinction is that to have a different strategy for the development of different types of private sector as opposed to a blanket strategy.** The basic delineation for strategies will be livelihood vs. profit maximization and formal vs. informal. The role of informal private sector is critically important because:

- They perform service retailing functions; and
- They can work effectively under the conflict situation, and are likely to provide services at the doorstep.

This means that the government's enabling strategy should be geared towards wholesale operation and investment by the formal and large private sector and retailing operations by the small and informal private sector.

4.2.7 Subsidy

172. Subsidy or support in agriculture may on some occasions be necessary to maintain or enhance the competitiveness in production and trade. In Nepal, its importance is further increased by higher level of support in the neighbouring countries, particularly India, with which Nepal has an open border. Nepalese producers and traders of agricultural goods are already handicapped in competition due to natural, infrastructural and science-based limitations. Koirala et al's (1995) claim regarding the likelihood of Nepalese farmers being rooted out even from their own domestic market is still applicable to date, in the absence of some offsetting support.

173. Subsidy, on the other hand, may also have some distorting effects on the market and the economy besides the issues associated with the affordability, administration and the effect on a level playing field. Hence, **this instrument has to be used in a most balanced and cautious way, based on high quality analysis in each case.** To avoid possible market distortions (e.g. subsidy on goats and local chicken, interest subsidy on consumption loan, etc. for the poor), the direct subsidy to the poor will be differentiated by product.

174. Nevertheless, the subsidy will be linked to the targeted programmes for only the specified targeted group within the three-pronged support strategy for a limited period of time using a very transparent method, in a least distorting manner following rigorous analysis of pros, cons and long-term effects.

175. Subsidy will be provided only when the activity being supported is prioritised by the national periodic plan and which has higher social return to the country than the actual financial return to the entrepreneur in the absence of such support. The aggregate support level will be within the allowable limit as defined by WTO (10 percent of the total value of agricultural production).

4.2.8 Information Communication Technology

176. Modern science has witnessed most vigorous and brisk growth of Information and Communication Technologies (ICT) with capability for application in every day life. With this unprecedented growth, costs of hardware and software in ICT are also plummeting to rock bottom making it possible to extend its use to a common individual.

177. Its application on agriculture has proven to be effective in many countries. The levels of sophistication have reached to the extent of computerized controls in irrigation systems based on the soil-moisture analysis. In India, the phone lines have been extended up to the block levels from where the farmers can call toll-free to the extension agents about their farming problems. India has also implemented the programme like "one village one computer" for improving the agricultural planning capabilities at the grass-roots level.

178. Unfortunately, Nepal's agricultural sector is largely deprived of this immense potential. The major problem is the lack of ICT infrastructure in the rural areas. Cheaper forms of ICT are mostly based on the supply of electricity and telephone lines, which have been largely confined in the urban areas.

179. APP-IAP intends to make best use of available infrastructure and the gradual extension of the ICT infrastructure in the rural areas for the purpose of agricultural commercialisation. Rural electrification has been targeted not only for the energisation of the tube wells and processing equipment but also for the use of ICT means. The most important area where ICT can most profitably be used is the operation of market and price information system, which will bring the market closer and closer to the producers.

4.2.9 Prioritisation

180. APP-IAP identifies 'prioritisation' as one of its key strategies for APP implementation. The prioritisation process depends on the value ascribed to each of the main sets of activities to be funded at any particular time and is a political decision; as such the APP-IAP does not prescribe a particular prioritisation scenario but sets out the framework within which prioritisation decisions may be taken. The decision itself is a financial one, and is at a level above a single Ministry, and therefore it will be closely linked to the MTEF's strategic prioritisation across sectors. However the governance structures for APP-IAP management and implementation will be expected to have an advisory role to the Ministry of Finance on this issue. The specific arrangements by which this relationship is operationalised remain to be defined.

As has been stressed in Chapter 3, the APP-IAP is not a rigid and prescriptive document. It puts into place processes by which good decisions will be made rather than making fixed decisions itself, because as we have seen with the APP such decisions become rapidly outdated. One of the key APP-IAP decisions to be made on an ongoing basis is about the prioritisation of budget allocation across 5 different dimensions of the APP-IAP, each of which are a critical element of the APP-IAP. Since the APP-IAP describes a comprehensive sector plan it must include the totality of activities conducted by government within the agriculture sector, and there are trade-offs between each of these. The five key areas to which budget must be allocated include the following:

- **Support to national priority commodities** – the specific budget allocated to enabling a farmer response to national strategic commodity interests;
- **Basic services** – the budget allocated to the public sector to provide or enable basic services other than those specific to NPCs, for example extension, animal health services etc.
- **Core functions** – the budget allocated to Ministries to conduct their core functions and to continue to function effectively, irrespective of any development expenditures on NPCs or basic services
- **Inter-ministerial allocations** – the proportion of the overall national APP-IAP budget allocated to each of the various APP-IAP Ministries
- **Central versus district functions** – the proportion of the overall national APP-IAP budget allocated to national functions and decentralised functions, respectively.

181. **National priority commodities:** A few commodities (cereal crops, fruits, vegetables, livestock, NTFPs, medicinal plants etc)¹² will be selected as national priority commodities (NPCs) through a rigorous careful and systematic analysis of external and internal factors such as comparative advantage, possibilities of product diversifications and value additions, international market access, domestic markets, macro-economic framework under the national priority.

182. The government will identify and select NPCs regularly, for a period of say three to five years, and announce accompanying support mechanisms and processes. The NPCs will target to different target groups as discussed under the three pronged service delivery approaches and targeting.

¹² This requires the expansion on the meaning of HVCs to include even aromatic rice (Basmati rice) and NTFPs. The APP-IAP explicitly aims at deconstructing the current thinking of identifying the seven commodities (Apple, Citrus, vegetables, off-season vegetables, vegetable seeds, honey and sericulture) as the HVCs and other commodities as not HVCs.

183. **Basic services:** Selecting NPCs will not bar the central level organisations and district agencies for providing basic services to the farmers in support of activities other than the priority commodities. Basic services include minimum service packages which need to be provided to different target groups apart from the priority commodities (NPCs and DPCs) such as basic animal health services, extension, disease and pest diagnostic services, soil and seeds analysis, fertiliser analysis etc. Depending on the local situations, opportunities and constraints, prioritisation for the basic services will be set.

184. **Core functions:** As discussed earlier, APP is a multi-sectoral and interactive plan, the performance of which is dependent on the level and quality of performance of at least 5 government ministries, private sector and civil society organizations. Of all these organisations, the total functions of MOAC are fully captured by the APP, but for other ministries, for example, MFSC, MOWR, MLR and MLD, APP is just a part of their other regular functions and duties. APP can neither accommodate all their functions, nor should it attempt to do so. This necessitates periodic agreement within the APP-IAP on the core functions of the key Ministries within the framework of the APP that will be covered by APP-IAP funds - which Ministry should be doing what functions and why. This is likely to necessitate a process of core function analysis for each Ministry and between them for the purposes of the APP-IAP.

185. The prioritisation issue is that a decision then needs to be taken on the proportion of the overall budget for APP allocated to the core functions of the respective Ministries and how to allocate the funds between priority commodities, basic services and core functions. Making APP-IAP sector wide means that its budget needs to include the core functions also, including the basic services, within its remit.

186. **Inter-ministerial allocation of resources/investments:** Decisions on the allocation of funds between NPCs, basic services and required core functions to be financed by the APP-IAP will help inform the allocation of APP-IAP resources between APP Ministries. This will need to be resolved within the framework of the MTEF, with the APP_IAP decision-making process informing and being closely linked to that of the MTEF.

187. APP-IAP provides a more realistic basis and rationale for mobilising the external resources for the agricultural sector through its specific action plan packages. The need is to harmonise the donors, which has been dealt elsewhere in detail.

188. **Central vs district functions:** The APP-IAP assumes a national governance framework which includes decentralisation, and a further prioritisation decision will need to be taken on allocation of APP-IAP funds between national and decentralised levels. This requires that the expected functions and structures at national and decentralised level are clear – and therefore the APP-IAP suggests to clearly define the function of the central/national level organisations and the local bodies – particularly the DDCs based on the core function analysis, selection and identification of NPCs and DPCs, basic services and so forth.

189. In the context of facilitating APP implementation and the framework which APP-IAP has proposed in Chapter 3, Annex 4.2 tentatively enumerates central and district functions/roles and responsibilities for each sub-sector of the APP. However, this is tentative and needs to be reviewed, discussed, and fine-tuned.

4.2.10 Conflict Sensitive Service Delivery

190. Experiences from Sri Lanka, a country which has been inflicted by insurgency and conflicts for more than 2 decades, suggest that (a) destroyed institutions, infrastructure and social services are to be repaired now rather than wait until the war finishes which can

further aggravate poverty and (b) that preservation of all kinds of public entitlements can significantly reduce poverty and inequality, even during the war.

191. Although poverty itself is neither a necessary nor a sufficient condition for conflict, conflict and poverty are closely interrelated, and poverty factors increase the likelihood of violent conflict. Therefore when working on conflict, it is important to address poverty and inequality as the root causes of conflict, and the consequences of conflict should be addressed very carefully. This requires again good analysis of the conflict situation – both causes and consequences.

192. The importance of flexible conflict sensitive service delivery approach in Nepal, particularly within public service delivery system has already been discussed in chapter 2.

193. The APP-IAP does not directly aim at resolution or prevention of conflict¹³ but what it does emphasize is the extent to which it has taken the conflict situation into account. The most important issue, which has influenced the design feature of the APP-IAP, is that it is designed not in a normal situation, but in a very difficult and fragile situation. In such a situation, many things will have to be done differently than they would under a normal setting. With the normalisation of the conflict situation or the restoration of the peace, it might be necessary to revisit the APP-IAP and take different courses of action to improve the social relations, social harmony and social capital building.

194. In view of the above, APP-IAP suggests a very flexible working modality to enable the implementing agencies, particularly DDCs, and the line ministries, to adjust themselves to the changing context. Working safely and effectively without exacerbating the conflict will be the general principle, whilst being as effective as possible and making plans which are appropriate to the conflict situation. Annex 4.3 lists how most of the development organizations are currently operating and implementing projects in Nepal (Best services delivery approach found useful in the conflict situation).

195. Almost a decade of working under conflict has shown that the **local NGOs and CBOs** and the **informal private sector** are more adept in pursuing development activities and convincing the other parties about the transparency and accountability of the development process and how these benefit the poor and deprived groups. This breed of actors must therefore be developed, strengthened and supported as instruments for grassroots delivery. This has been already practised, in partnership modes, by many INGOs and national NGOs in Nepal, but facilitating the informal private sector has not yet been common practice. The government must consider this as the most prudent option to work under the conflict situation, and adjust its perspective as required.

196. In view of the above, the importance of shifting from development policy which works well in times of peace to a policy which incorporates conflict resolution is obvious. A critical first step in achieving a paradigm shift in policy is the realization that change is needed in the way development is targeted and implemented. Business as usual is likely to exacerbate the conflicts rather than making it smoother, make people to forget it and help them to improve social relations.

¹³ APP-IAP could influence the root causes of conflict through growth and poverty reduction thus weakening the very base of the current armed conflict.

5. Sub-sector Strategies

5.1 Introduction

197. APP-IAP has both priority inputs and priority outputs. However, the priority outputs have not been specified for the simple reason of their dynamics – they are subject to change in conjunction with the changing comparative advantage. So, these have been defined broadly in terms of National Priority Commodities, which will be determined in the centre based on analysis of national and international potential; and District Priority Commodities (DPCs) which are determined locally based on district specific potentials and opportunities.

198. But unlike the APP, the APP-IAP will not be limited to its specific priority commodity outputs; it is focused not only on commodities themselves but also the livelihoods of people engaged in agriculture even where these are not concerned with specific commodities. The integrated sector-wide approach followed by the APP-IAP will also have other general output coverage, which will be supported under a basic programme with broad coverage. While national priority commodities are largely targeted for exports, the district priorities will have outputs that could be targeted for export, import substitution or to utilize specific potentialities of some areas/districts towards livelihood enhancement.

199. All these different outputs utilize common set of inputs where APP-IAP has its priorities defined building on APP and the outcome of broad national consensus as reflected in the APP-ISR. The key challenge for the APP-IAP is to facilitate commodity development but also support the wider livelihoods of Nepali farmers which are less directly tied to specific commodities, in order to stimulate broad-based growth and poverty-reduction. As discussed above, the mechanisms used by the APP-IAP to achieve this are the NPCs, the basic services, and effective implementation of government's the core functions at both national and district levels, and harmonised across the various APP Ministries.

200. In this chapter, the APP-IAP strategies (as described in chapter 4) are applied in APP sub-sectors. The priority input domain in the APP-IAP has been expanded in recognition of the problems observed in the APP-ISR.

201. Within the inputs, marketing has been added as a part of infrastructure while the scope of rural power has been expanded to cover alternative energy sector. Likewise, in view of the importance of reforms in land for agricultural development, it has been added as one important natural resource input, and grouped it with the forestry sector both of which reflect land use system.

202. Irrigation is treated in a more generic form to accommodate water's multiple uses in agriculture. Rural financing has been incorporated in line with the importance accorded to it in the Interim APP. Farm inputs for crops and livestock have been dealt with separately. The main reason for this is to treat seeds, planting materials and breeds as separate priority inputs as against APP's broad lumping of these important inputs into 'technology'.

203. Further, APP-IAP has broadened the analysis of the technology system into an innovation system in order to recognize the different sources and attributes of innovation, and emerging alternative mechanisms for the dissemination of innovations. Likewise, to enable the different actors and stakeholders to benefit from briskly developing modern communication technologies, information communication technology (ICT) has been added as an input which will complement the research and extension system in an innovation process.

204. Embedded in the in overall strategies discussed in chapter 4, which themselves are the elaboration of the framework presented in chapter 3, APP-IAP's sub-sectoral strategies are discussed in this chapter and corresponding action plans are described in chapter 7. Chapter 6 delves into implementation aspects.

5.2 Priority Commodities

205. Of the four priority outputs identified and recommended for investment priority over the 20 years (1997-2017) period by APP, High Value Commodities (HVCs) is the one group of commodities. The HVCs included citrus throughout the hills; apple in the inner Himalayan zone; off-season vegetables in the hills and the Terai; vegetable and flower seeds in the hill and mountains, apiculture in the hills and the mountains and raw silk in the hills.

206. APP-IAP expands the HVC definition to ensure flexibility and to include commodities like aromatic rice (Basmati rice) and NTFPs, and also those commodities which have high possibilities of product diversification, value addition and access to international markets.

207. While APP-IAP has two types of priority commodities – national and district – it does not specifically identify them for they are subject to change from time to time based on international demands, export potential, import substitution requirements, national and district needs, district potential, and other factors. Furthermore APP-IAP has been developed as a dynamic rather than a static plan, and the development of the processes which will be needed to maintain this dynamism is an important element of Nepal's future agriculture development.

National Priority Commodities

208. For the national priority commodities (NPCs), the government will select a few commodities through a rigorous, careful and systematic analysis of external and internal factors such as comparative advantage, possibilities of product diversification and value addition, international market access, domestic markets, macro-economic framework as per the recommendation of the NAPPC and in consultation with the FNCCI.

209. The commodities selected as above will receive national priority for a fixed period of time not exceeding two to three years, though some follow up activities could be undertaken after the expiry of the priority period. For example, if the government decided to provide national priority to Basmati Rice in year one to three, it is not necessary that it will receive national priority again in year 4 and 5. However, the follow-up services will be provided to consolidate the gains achieved during the years it received priority and to sustain the benefits and achievements.

District Priority Commodities

210. Similar to the NPCs, each of the 75 DDCs of the country, upon the recommendation of respective DANRC and consultation with the district CCI, will select a very limited number of commodities (livestock, cereals, horticultural, fisheries etc) as district priority commodities (DPCs) for a fixed term, based on the district specialities, potentials, district and domestic markets and the product in which the district wants to specialise. **It is not necessary for the DPCs to be selected from the NPCs.** For example, tea could be both a national and district priority commodity for Ilam, but for Taplejung, it could be just a national priority commodity. Likewise, Junar (sweet orange) could be district priority commodity for Sindhuli district, but not be a national priority commodity.

211. With the selection of a commodity as a district priority commodity, the DDC will develop its commodity specific strategy in consultations and support of the respective national programme directorates and agencies of the DOA, DLS, DOF, DOI, DOLIDAR, and FNCCI/CCI etc.

212. The growth rate envisaged for the priority commodities under APP-IAP is demand driven, and provides a greater role to the private sector for the expansion of the necessary production, marketing, and processing activities. Hence the private sector facilitation role of the APP-IAP and the government of Nepal more generally is critical to the success of the APP-IAP.

213. The services of CSOs will also be mobilised and proactively used in the promotion of the priority commodities both at the national and district levels in view of their demonstrated successes in providing the range of support services required to make production of high value agricultural products take off.

214. The APP-IAP strategies for the priority commodities include the following:

- a) *Productivity increase of priority commodities focused on exports – national priority commodities (NPCs) – and creating conducive logistics for the end disposal of the prioritized commodities;*
- b) *Productivity increase of district priority commodities (DPCs) focused on domestic markets, exports and district potential.*

5.3 Land

215. Land, as the static natural resource, is important for agricultural production yet the problems on agricultural and other land (forest, pasture) are compounding rather than receding. The major problems are – decreasing holding sizes (due to growth in population and households dependent on agriculture, increasing urbanization, loss of land by floods and landslides, etc.) and deterioration in land quality (due to soil erosion/top soil loss, imbalanced use of plant nutrients, siltation, disposal of untreated industrial wastes, etc.).

216. The distribution of land has been inequitable as about 69 percent of the total population have less than one hectare of land and 16.1 percent of the large landholders own nearly 63 percent of the land. While many holdings are uneconomical, many other parcels have been rendered uncultivable owing to size and shape. Tenancy arrangements continue to be informal and thus insecure despite legal provisions against it. The government is working on creating a land use database and data base creation work has already been completed for the 23 districts. Further to this, a model land use plan is being prepared in one VDC for the purpose of pilot testing.

217. Several land reform measures initiated since 1953 with the formation of High Level Commissions have failed to succeed in solving holding size and tenure problems. The last unsuccessful attempt to reform came in 2001. At that time, a policy was brought out to lower the land ceiling as per the table given below. The land obtained from this regulatory measure is aimed at providing to landless, bonded labour, indigenous and disadvantaged groups of people. It was also extended to renew government commitment to abolish dual land ownership within two years (MOPE, 2002). Despite the government attempting to resolve the issues of dual ownership, there are still 250,000 outstanding cases with the government.

Particulars	Upper limit as owner		Upper limit as homestead	
	In local units	In hectare	In local units	In hectare
All terai including Inner Tarai	10 bigha	6.0	1 bigha	0.67
Kathmandu valley	25 ropani	1.25	5 ropani	0.25
All hill and mountain areas except Kathmandu valley	40 ropani	2.0	5 ropani	0.25

218. Executing radical land reform measures is becoming increasingly difficult with globalisation and now many countries are resorting to negotiated land reforms that are not very effective.

219. Land reform is a number one prerequisite for the improvement in overall agricultural performance in any country. The lesson from the Punjab green revolution shows that agricultural development cannot take place without consolidating the land holdings and ensuring the tenancy security. In Nepal, the importance of land reform is even more important because of the smaller sized farms, high level of informal and exploitative tenure arrangements and large number of scattered parcels per farm.

220. APP stressed the need for legislation to address dual land ownership, consolidation of holdings, economic holding size for the poor through ceiling and redistribution, and prioritization of Churia range as a protected area, none of which have made much headway perhaps adding to the pile of reasons that explained less than satisfactory trend of progress in realization of APP implementation outcomes. Like APP, several other studies (Chapagain 2001; HMG/NOPE, 2004) have emphasized the economic holding size for operation.

221. The Ninth Plan envisaged to guarantee the safety of land ownership, provide the landless access to land and extend land ownership. The problems, however, remained as they were.. As per the government commitment to establish a Land Bank for the purposes of ensuring access of landless households to land, the government has made a budget allocation for this purpose and has formed a task force to suggest the process of the Bank establishment and operation. Based on the recommendation of the task force, the government has already provided Rs.50 million to ADBN to meet concessional long term credit needs to purchase land for Kamaiyas in selected areas of Kailali and Banke districts as a short term arrangement. The government has also approved and released Rs.650,000 for administrative expense and preparatory works as per the government approved operational procedure 2062.

222. The only relatively effective progress in the long list of envisaged reforms has been in the implementation of the leasehold forestry programmes for the poor.

223. The analysis shows that the problem in reforming land management is not in legislation or policy but in the commitment at the political level. Therefore, APP-IAP proposes a further attempt to execute following four strategies with regard to the right use of the land resource:

- a) *Ensuring economic use of agricultural holdings*
- b) *Encouraging land consolidation*
- c) *Land quality monitoring*
- d) *Adoption of watershed approach to manage land resources.*

5.4 Forestry

224. The forestry sector was considered as one of the four priority outputs by the APP. This sub-sector was envisaged to increase and sustain growth in agriculture gross domestic product along with income generation and employment promotion. Within the forestry sub-sector, four priority programmes were identified, which included (a) community forestry in the hills and mountains; (b) private and leasehold forestry; (c) commercial management¹⁴ in the Terai and (d) support activities like forestry training, research and development.

225. However, forest related organisations view that the implementation of the APP forestry component should be guided more by MPFS, 1989 and the Forest Policy rather than by the APP. This is because the MPFS is more holistic in terms of forestry sector development and APP added no new dimension to the sub-sector, including resources.

226. Forestry served more as an input in the APP rather than outputs as forests are required for sustaining the farming systems. Different studies suggested that about 1 to 6 hectares of forested land is required to sustain a hectare of cultivated land in the hills. Similarly, forests provide about 42 per cent of fodder supply to livestock. In this sense, forestry is an input to agriculture. In light of the above, **the APP-IAP views the forestry sector as an important component of agricultural development and avoids debate on whether it is an input or output.** The action plan of this sector has been largely guided by this consideration.

APP-IAP Strategies in Forestry

227. The APP-ISR concluded that the APP should be adjusted and limited to those components which support the development of the agricultural sector in general and sustaining the farming system in particular. This implies the redundancy of the forest management schemes to the APP-IAP. However, it should focus management interventions to be carried out in different management schemes to sustain the farming systems and improve the livelihoods of people. APP-IAP's focus on management interventions will make both the MFSC and MOAC to come closer and cooperate with each other. In the absence of one, the other will not be able to achieve the desired output.

228. Furthermore, the APP-IAP subscribes to adopt land use principles for enhancing the productivity of the resource base and for striking a balance between the conservation and the sustainable use of natural resources as suggested by the revised forest policy 2000. Hence, the focus of APP-IAP is also on sustaining the existing forest areas or boundaries and promoting Trees outside Forests (ToF).

229. APP-IAP emphasises improving the livelihoods of people through creating a conducive policy and legal environment as well as developing a sustainable resource management system. Therefore, the APP-IAP seeks to promote agro-forestry techniques like inter cropping of fruit trees with medicinal and aromatic plants as well as other multiple land use techniques adapted to various farming systems as well as in private plantations.

230. The strategies adopted for the forestry sector in order to expand its role towards sustaining the farming system are:

- a) *Enabling Policy, legal and institutional environment for effective implementation of forestry component in APP-IAP*
- b) *Strengthening the linkages between forestry and agriculture sector for sustainability of the farming systems*

¹⁴ Commercial forest management has now been changed to collaborative forest management.

- c) *Improving the livelihoods of people through forest based income generating activities*
- d) *Reforming existing forestry related technology development and dissemination processes with focus on linkage between production and market*

5.5 Agricultural Market Access

231. APP included agricultural roads as one of the four priority inputs to link the production pockets and markets. As a result, the Agricultural Roads programme has been implemented in 61 districts. However, only about 5 percent of the total investment and physical targets were met (APP-ISR). Furthermore, agricultural roads seldom reached the PPS areas and the funds were largely diverted to other rural roads and district strategic roads. Many agricultural roads were linked to rural or strategic roads that were constructed without following the standards.

232. Conceptually APP constricted the component by emphasizing agricultural roads when in fact other non-road components such as bridges, cable ways and twines could have been equally important in certain areas. This has led APP-IAP to broaden the component to agricultural market access than simply agricultural roads.

APP-IAP Strategies for Agricultural Market Access

233. APP-IAP extends the APP's agricultural road concept to cover more rural access components such as bridges (including suspension ones), cable ways, twines and even tracks and trails. The choice of the access means will be based on the social and economic returns compensated for environmental mitigation measures. In all access components, feasibility, appropriate technological choices, cost efficiency, environmental concerns, and maintenance arrangements will be emphasized.

234. APP-IAP strategies for agricultural market access include the following:

- a) *Priority in investment for agricultural market access (quantity, ie number of VDCs/production pockets covered, kilometre and quality)*
- b) *Providing employment and work opportunities to the poor and extremely poor groups*

5.6 Rural Power

235. APP targeted rural power from the national electricity grid along the agricultural and rural road corridor for the purpose of energisation of the shallow and deep tubewells and in energizing the equipment used in agricultural processing. The emphasis was given for rural electrification in Terai with a purpose to energise the tubewells. No investment head for rural electrification was made.

236. APP ignored alternative energy sources such as solar, micro-hydro, or wind systems which can provide quicker solutions to energy problems in areas where grid access is remote.

237. The institutional responsibility for rural electrification was given to Nepal Electricity Authority (NEA).

Rural Power Strategies in APP-IAP

238. APP-IAP will have a strategy to include both forms of power – grid and alternative sources for meeting rural energy needs. This institutional arrangement needs also to be diversified beyond NEA to cover both power forms. Accordingly, the strategies for rural power have been separated between rural electrification from national grid and micro-hydro and the alternative power sources.

239. APP-IAP strategy for rural power is:

- a) *Increase investment in rural power sector (number of VDCs/production pockets and number of farming families and number of agro-industries served)*

5.7 Market Infrastructure

240. Although APP emphasized the commercialization of agriculture, the market infrastructure component of this was not prioritized. The market infrastructure in APP-IAP is conceived as the market yards and stalls at various levels including warehouses, cold storages, bulk weighing and communication facilities where available and needed. Such marketing yards will be operated by the local marketing boards generating locally fixed rentals on the stall spaces and services. Agricultural markets will also be used as source of market and price information to the local people.

241. Since marketing is a cross cutting theme in all inputs and outputs, specific action plans related to marketing infrastructure are dealt in the respective section, as for example in the livestock sector, marketing actions required related to livestock sector are discussed. Nevertheless, a broader strategy for market infrastructure is presented in this section followed by the action plan in Chapter 7.

242. Although APP-IAP market infrastructure differ by crops and livestock sector, APP-IAP's strategies will generally include the following:

- a) *Enhancing local peoples' access to market infrastructure*
- b) *Create conducive environments for buyers and sellers*

5.8 Agricultural Innovation System

243. The technology system received an important status in the APP for its significant role in the envisaged agricultural growth. The APP's strategy was based on the assumption that accelerated technological change is the means to increasing agricultural production and incomes. While there is no flaw in this assumption and the importance of technology in the modern era need not require further justification, the APP called for massive reforms and change in Nepal's Agricultural Research and Extension System as they were perceived highly unproductive in the then existing forms.

244. However, after 10 years of APP implementation, APP ISR reported the technology input¹⁵ not performing as was envisaged by the APP. Not only did research investment not correspond with the APP priorities, but also there was very little correspondence between topics suggested by the APP and actual research conducted (see Chapter 5, APP- ISR).

¹⁵ This includes both research and extension

245. Building upon the reform agenda proposed by the APP, initiated by the NARC in recent years through the efforts of its several projects and policies such as NARC Vision 2021, APP-IAP promotes an innovation system perspective (ISP), which is appropriate for developing a country's agriculture like that of Nepal. It identifies and analyses new ways of encouraging innovation by capturing the intricate relationships between diverse actors processes of institutional learning and change, market and non-market institutions, public policy, poverty reduction, and socio-economic development (Spielman 2005).

246. Adopting an innovation systems perspective implies that the NARS is no longer seen as the epicentre of innovation but one of a variety of sources. Knowledge and information may enter the innovation systems from sources other than the NARS, and, perhaps even more crucially, knowledge and information may emerge from outside the realm of formal research (e.g., through both on-farm and off-farm learning as a result of learning by doing, using, or interacting with other elements of the system).

247. An innovation systems perspective therefore implies not only a significant change from the conventional, linear approach to research and development, but also provides an analytical framework useful in exploring complex relationships among heterogeneous agents, social and economic institutions, and endogenously determined technological and institutional opportunities. Therefore, for research and extension, adopting innovation systems means doing business differently.

APP-IAP's Strategies on Agricultural Innovation

248. Rooted in systems theory and analysis, at the heart of the innovation systems framework is the contention that research and development is always embedded in social, political and institutional contexts and that unless the influence of this environment is accounted for by decision makers, the evaluation and planning of R and D will be incomplete.

249. The Innovation Systems and Agricultural Knowledge and Information Systems (AKIS) approximate to each other, both focused on reforming the top-down transfer of technology model of and founded on the systems approach. However, the advantage of the all-inclusive innovation system perspective over the AKIS concept is that it provides a more complete and realistic picture of the agricultural innovation process, covering all the various actors and how they depend on each other (Chema, Gilbert and Roseboom, 2003).

250. Focused on a more pluralistic agricultural extension and research, central to the innovation systems is the realisation that innovation is a complex social phenomenon with two key concepts - innovation process and innovation system.

251. **Innovation process:** Innovation is the result of a process that follows a sequence of steps. Innovation theory conventionally distinguishes research, diffusion, and adoption as the three main phases of any innovation process.

252. While the recent theory emphasizes the social character of innovation, the innovation process is recognised as a continuous learning process that evolves in cycles, in feedback loops between farmers (technology users) and the providers of technological services. This process can start at any point, be it a research idea, a practical farming problem, a market opportunity or a development project supporting local initiatives.

253. **Innovation system:** A second, more recent, idea in innovation theory concerns the social organisation of innovation. It builds on the observation that innovation requires different functions, the most important ones being technology development, communication about problems and potential solutions, and the adaptation and integration of new ideas into

current practice. Every function is equally important and people need to collaborate to achieve innovation. The organisation of this collaboration can best be analysed in terms of social systems theory.

254. The agricultural innovation system for the purpose of the APP-IAP includes two different concepts (a) rural innovation systems, which are closely associated with markets and commodity chains; and (b) promoting local (indigenous) innovation through participatory R&D in complex, diverse and risk-prone areas (*Water-bayer, 2005*).

255. The first concept of rural innovation systems emphasizes technological dynamism in which farmers must be in a constant process of technical change in order to remain competitive on the market, often referring to an international market. Farmers are encouraged to adopt new technologies so that they can stay in business.

256. The second concept of promoting local innovation emphasises processes of enriching indigenous knowledge and supporting local initiatives to improve rural livelihoods in a sustainable way. It is focused on “resource-poor” farmers in marginal areas, many of whom do not have access to major markets and are often operating on a subsistence level.

257. With the introduction of the innovation systems perspective, the APP-IAP envisages a new reform agenda for agricultural research and extension - a more decentralized approach to agricultural research and extension, and one which is more outward looking, participatory, client oriented, and impact driven.

258. One way of making agricultural research and extension adopt these characteristic features (more outward looking, client oriented, and impact driven) is to bring them (both agricultural researchers and extension) closer to their clients—the farmers. Interestingly, a recent research review (ITAD, 2005) underscores, “Where the Participatory Variety Selection (PVS)/Participatory Plant Breeding (PPB) approach has been adopted, impact has been greatly improved because new varieties have been selected or bred that meet the farmers preferred characteristics, are evaluated in partnership between farmer and crop breeder, and, if found appropriate, scaled up through a partnership approach involving NARC, extension, NGOs, farmer seed producer groups and private seed traders”.

259. In Nepal, the context for agricultural extension has already been changed with its devolution to the local bodies. But uncertainties still exist in NARS system, which is the responsibility of the national government.

260. Of the four different ways on decentralizing agricultural research¹⁶, devolution of the responsibility for agricultural research to lower levels of government has its own dynamic and logic, and is not necessarily consistent with the most appropriate mode of organization for agricultural research. Therefore, the APP-IAP promotes a decentralized agricultural research system, to bring it closer to the people, by adopting an agro-ecological boundaries approach (Chema. Gilbert and Roseboom 2003) rather than the political boundaries of provinces and districts as has been the concern of the devolution of the responsibility to the local bodies. .

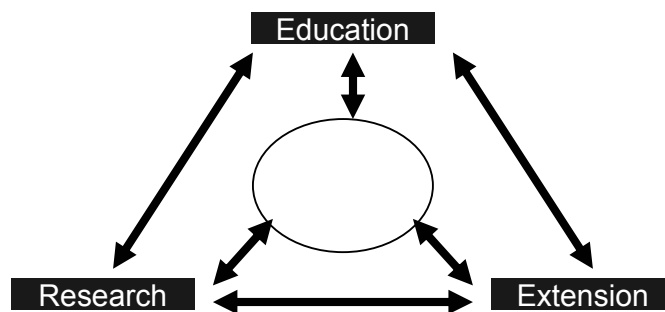
¹⁶ Four different ways include (a) geographic decentralization, (b) decentralization of decision-making within agricultural research organizations based on the principle of Subsidiarity (c) delegation of at least some of the responsibility for agricultural research funding to specific client groups (d) devolution of the responsibility for agricultural research to lower levels of government.

261. At present, Nepal's agricultural research and extension hardly recognises any significant role of the education system, where as its responsibility in producing agriculturists who are oriented to the clients, are inclusive, participatory, pluralistic and open-ended is undisputed.

262. Enabling the formal research and development organisations to allow to intervene best to complement the farmer, private sector and NGO initiatives, re-orientating on the roles and functions of formal researchers, and the way they interact with extension agencies, farmers and other stakeholders, particularly at district and local levels are the major concerns of the APP-IAP.

263. Utilising the concept of the knowledge triangle from the AKIS, the APP-IAP will aim at combining agricultural research, extension, and education in one system (Figure 5.1) to focus on how the three activities generate new knowledge and information for farmers. The systems integrate farmers, agriculture educators, researchers and extensionists to harness knowledge and information from various sources for better farming and improved livelihoods.

Figure 5.1: Knowledge Triangle



264. The APP-IAP's assumption is that investing more and more money in agricultural research and extension systems in the light of structural weaknesses may not necessarily lead to enhanced research and extension capacity, although the agricultural science community's battlecry is lack of funds. Money is a necessary but not a sufficient condition.

265. Rooted in the innovation Systems perspective, the APP-IAP's strategies in agricultural innovation systems are:

- a) *Reforming Publicly funded Agricultural Research Systems to make it pro-poor, participatory and innovative framework;*
- b) *Reforming publicly funded Agricultural extension systems to make it pro-poor, participatory, conflict sensitive and innovative within the framework of devolved agricultural extension services*
- c) *Establishing strengthened knowledge triangle between research, extension and education with farmers at the centre*

5.9 Water

266. The water sector, which substitutes irrigation as the priority input in APP, in order to allow its multifarious use, is important not only in directly increasing productivity of crops, fruit trees and fodder/grasses but also in providing synergy to other production augmenting inputs such as plant nutrients.

267. APP emphasized only on surface and groundwater systems of medium and large scale and ignored the micro-irrigation technologies such as rainwater harvesting, sprinkler and drip systems; manual pumps which are poor-friendly.

268. The problems of irrigation in Nepal are succinctly summarized by a study (MOPE 2003) as "too much water" in some areas and "too little water" in other areas. Most systems developed so far are of seasonal nature and do not provide year-round irrigation. Research on irrigation technologies and extension on efficient water use is hardly in existence and if carried out, results are seldom used. Coordination between agriculture and irrigation is weak.

269. APP envisaged massive expansion of groundwater irrigation through deep and shallow tubewells to the scale of about 8,800 tubewells per year but the overall achievement has only been around 2000 systems per year. This is because of the long debated subsidy withdrawal issue.

270. Land consolidation is a prerequisite for increasing the efficiency of irrigation but there are no programmes for land consolidation.

271. Strategies for the water sector in APP-IAP are as follows:

- a) *Improving overall water availability for agriculture purposes*
- b) *Improving efficiency of water use*
- c) *Ensuring equity in irrigation benefits.*

5.10 Rural Credit

272. APP defined credit from a very narrow perspective to include public supply, mainly from Agricultural Development Bank of Nepal (ADBN). It has sought some institutional reforms within ADBN and MOAC for the purpose of STW and HVCs financing. APP delineated the role of other commercial and other rural development banks (grameen banks) to supplement credit requirement up to about one-fourth of the total credit demand estimates.

273. Eleven years ago, when the APP was in the process of formulation, the RRDBs, SFCLs, SCCs and NRB-licensed NGOs did not exist although services now provided by SFCLs were then provided directly through ADBN. The Center for Microfinance (CMF) was formed in January 1998 to improve networking between donors, international agencies and local NGOs and provide technical assistance to local practitioners on emerging issues in the micro finance sector. In June 2000, CMF was registered as a private not-for profit organization, with a board of directors comprising representatives from leading microfinance practitioners. Of particular relevance to rural and agricultural credit are the state-owned commercial banks, ADBN, development banks, grameen bank replicators, SFCLs, multipurpose cooperative societies, NGOs, saving and credit organisations.

274. Having found the real growth in agricultural credit to be almost three times that of growth in agricultural GDP, ASPR suggested to focus more on the activities such as the development of infrastructure, remove distorting effects of subsidies in Nepal and India, consolidate small, fragmented and scattered landholdings (especially among the poor), and to improve the service delivery other than credit as it was not the major constraint to increased agricultural output (ASPR 2002).

275. However, APP-IAP does not underestimate the importance of credit in raising the agricultural output. Farmers have now been facing greater difficulties in accessing credit because of the conflict and the deterioration of peace and security conditions. Recent years

have seen the ADBN and other rural banks consolidating their activities in safer locations with better security and operating mostly from district headquarters, and the development banks delaying or postponing their expansion in rural areas. Rich and well-off farmers might have no major difficulties and problems in accessing credit from the banks located in the district headquarters. They have several reasons to come to the district headquarters. But small and poor farmers are constrained. Their access to credit has diminished. Strengthening of village cooperatives and MFIs has now become crucial.

Rural Credit in APP-IAP

276. APP-IAP has a strategy to extend the rural financing to a multiple set of actors, in line with the polycentric institutional principle, to meet the credit needs to implement APP components.

277. Major strategies for agricultural financing in APP-IAP are:

- a) *Enhancing overall credit supply*
- b) *Simplifying credit disbursement procedures*
- c) *Improving banking efficiencies (lending, borrowing, collection)*
- d) *Reduce credit and enterprise risks (lender and borrower risks)*

5.11 Crops Sector Related

278. This section addresses problems and issues related to the farm inputs for crop production, separately from that for livestock production. From the inputs side, this section is focused on (a) removing direct input constraints such as availability in terms of quantity and timeliness and (b) removing input to output constraints such as quality of the inputs, prices of inputs (affordability) and knowledge and skills on how to use the inputs correctly etc. Actions are suggested specifically to correct or fix the 16 APP-ISR unfolded problems.

a) Seeds and Planting Materials

279. While seeds and planting materials embody the whole biological technology, timely availability of good quality seeds at affordable prices is one of the major problems for farmers in Nepal everywhere. Seed contains in itself the blue print for the agrarian prosperity in incipient form. It is the basic input for increasing agricultural productivity.

280. The use of the improved seeds is limited. ASPR (2002) has questioned the reported 35 percent of use of improved rice seeds by farmers in view of the actually observed 11 percent annual replacement rate. The replacement rate is found to be relatively better in wheat (40%) and lowest in maize (10%).

281. In Terai, the majority of farmers buy seeds of Indian varieties of rice, not even recommended by National Varieties Releasing Committee.

282. A comparison of yields obtained on research stations and on farmer fields' reveals a considerable gap. While it would be difficult to attribute this phenomenon either to research or extension, many studies and reports have shown that in Nepal the distribution system of improved seeds is not working effectively, and that the large potential of seed technology generated by the research system is largely left untapped. Establishment of the National Seeds Company by bifurcating the then Agricultural Inputs Corporation into two companies namely the Agriculture Inputs Company for the fertilizer and the National Seeds Company for the distribution of improved seeds has not been of much help in streamlining the distribution system.

283. Lumping seeds with the technology, as was done by APP, is problematic, as it has blurred the focus and led to a lack of action on an important input – seeds.

APP-IAP Strategies in Seeds Sector

284. In view of the above, the APP-IAP identifies seeds and planting materials (cereals, vegetables and fruit saplings) as a major farm input to be emphasized proactively. The seeds systems will comprise the following three subsystems:

- (a) **The supply subsystem**
- (b) **The quality control subsystem**
- (c) **The distribution and pricing subsystem**

285. Each of the 75 districts will **formulate a district specific seeds management strategy, as a part of its overall district inputs management policy**, which, among others, will specify the activities for the production of certified seeds at the farmer level, linkages/coordination with the research stations and the National Seeds Company, Seeds Entrepreneurs Association of Nepal (SEAN), the informal private sector, distribution strategies/plan and quality control mechanisms etc. The district seeds management strategy will be consistent with the national seeds policy within the bounds of the LSGA and the core principles of APP-IAP. In the seeds sector, the role of the SEAN should not be undermined which has now become the lead organization among the seed entrepreneurs of Nepal. It has more than 162 seed entrepreneurs as active members and it works for the better seed production and marketing thereby serving both for the farmers and the traders.

286. The **district seeds management strategy** should be demand led, directed towards (a) making the district self-sufficient for seeds of at least for a few commodities based on the potentialities of the district and (b) targeted to the neighbouring districts and even export led. The amount of seed production should not lead to quality being compromised. The seeds village concept in the district is worth trying.

287. In the seeds sector the Regional Seeds Laboratory, currently functioning under the Department of Agriculture, will be upgraded and placed under the control of the Central Seeds Quality Control Centre which functions under the Ministry of Agriculture and Cooperatives. **Upgrading the status of the Seeds Laboratory is important in the present context of the WTO membership.**

288. This sub-sectoral strategy is consistent with the ASPR recommendation which emphasizes the development of an effective and efficient seed distribution system where public and private sectors work together to deliver quality seed to farmers. In such a system, research organizations would focus on basic research, variety development, and breeder seed production, while seed companies focus on multiplication and sales of foundation and certified seeds to distributors and farmers. The research stations might contract out a part of their land to seed companies for the multiplication of foundation seeds under strict supervision of the research stations in a public-private partnership mode.

289. However, the above does not necessarily imply prohibiting private sector from doing research and variety development. Because of the little incentives for the private sector to invest in open pollinated varieties of grain, the public research institutes would concentrate on basic research and the development of open-pollinated varieties of grains and pulses. On the other hand, the private sector would concentrate on development and distribution of hybrid grain seed and horticultural seeds and planting materials. Because these seeds are difficult to produce at the farm level, the incentive for private sector involvement is strong. Plans along these lines have already been discussed by NARC, although they remain at an early stage.

The APP-IAP strategy is ensuring timely availability of quality seed of the right variety in adequate quantities.

b) Plant Nutrients

290. The APP identified fertiliser (chemical fertilizers) as a major input to contribute between 64 to 75 percent to the total envisaged growth target of the agricultural sector (add two percent points to agricultural growth rate). To achieve this agricultural growth rate, APP targeted the raising of fertiliser use by an average of about 8.5 percent per annum between 1991/92 and 2014/15¹⁷ to reach 131 Kg fertiliser nutrients per hectare which is still below the level attained in some countries in the region.

291. APP attributed “inadequate supply of fertilisers” rather than “lack of farmers’ demand” as the single most important factor behind the wide gap between targeted and actual growth in yields of major crops. Accordingly, it suggested policy reforms in the fertiliser sector in the form of gradual reduction of subsidy.

APP-IAP Strategies in Plant Nutrients

292. Endorsing the National Fertiliser Policy (NFP) approved by HMG/N on 28 February 2002, the APP-IAP focuses on the broader focus of plant nutrients instead of chemical fertilizer as has been the focus of the APP. The reason for this is to accommodate the organic farming and integrated use of manures and bio-fertilisers. The purpose of the NFP is the purpose of the APP-IAP with regard to the plant nutrients.

293. With regard to improving the availability of the chemical fertilizers in the country, the APP-IAP supports the government’s present commitment of providing a level playing field for the public and the private sector in the fertilizer trading system. However it acknowledges the important role likely to be played in fertiliser supply by the informal private sector, especially in times of conflict, and emphasises that this is an essential function which must be facilitated rather than restricted.

294. The principal aim of the NFP is to enhance agricultural productivity through improvements in soil fertility, and thereby contribute to the national goal of poverty alleviation.

295. The specific purposes of the NFP are:

- (a) Provision of conditions (policy and infrastructure management) for enhancing fertilizer consumption; and
- (b) Promotion of integrated plant nutrients management system for the efficient and balanced use of fertilizers.

296. APP-IAP plant nutrient strategies include the following:

- a) *To improve efficiency of plant nutrients*
- b) *To ensure the quality of the chemical fertilizer traded in the deregulated market*
- c) *Improve access of farmers residing in remote mountain and hill districts to plant nutrients;*

¹⁷ Fertiliser use is estimated to rise from about 83,000 Mt. of nutrients in 1991/92 and reach about 628,420 Mt by 2014/15.

c) Plant Protection and Post Harvest Support

297. According to a report by the Plant Protection Division of the Directorate of Agriculture, the estimated annual loss due to pests before and after harvest is about 35 to 40%. Farmers therefore need to use different methods to minimize this loss.

298. Of the various pest control methods available (cultural, physical, biological and chemical), chemical pest control measures – pesticides - are highly effective and are most common. Pesticides, by design, are biocides; their value lies in their ability to kill noxious or unwanted organisms. However, problems arise when they are used indiscriminately and without knowledge. They are sometimes applied to crops at the wrong time, or through inappropriate means, or using the wrong formulations and concentration. These chemicals have also been the health threats. At present, 239 types of pesticides are commonly available in Nepal under different trade names. Since 1991, the Pesticides Act has controlled the importing, producing and marketing of pesticides.

299. The Integrated Pest Management (IPM) concept to combat pests and diseases was introduced in Nepal through an FAO Programme in 1997 and special thrust was given to this concept through the Farmer Field School approach. This season long training cum demonstration component created greater awareness among the farmers.

300. IPM has become one of the major programmes of the PPD since then. The current 10th Plan too has incorporated it as a basic strategy to control pests and diseases. The core of the IPM learning is for farmers to make their own discoveries, make their own decisions and take action on their own (FAO, 1997).

301. However, the APP's support to IPM was shaky, as it happens to include it as one of the activities to be carried out as a part of the environment protection.

302. In view of the haphazard and excessive use of plant protection chemicals in some areas, particularly in vegetable crops, increased resistance of several species of pests,, indiscriminate sale of different brands of pesticides, the APP-IAP emphasizes the use and promotion of appropriate plant protection mechanisms, particularly, IPM, for increasing the production and the productivity of the agricultural crops. For this, extension methodologies like the farmers' field schools will be promoted and mobilized.

303. In short, APP-IAP strategy in plant protection is *to intensify and expand Integrated Pest Management. In post harvest, the APP-IAP will aim at reforming Post-Harvest Management, Value Addition and Cost-Effectiveness*

5.12 Livestock Sub-sector

304. In Nepal, livestock production is an important agricultural sub-sector, accounting for approximately 31 percent of agricultural GDP, and about 11.5 percent of total GDP. Numerous people are involved in the production, slaughtering, processing, and trading of livestock and livestock products. Over 2 million households own cattle, and over 1.4 million households raise chickens. The APP targeted to raise the share of livestock in AGDP from 31 percent in 1995/96 to 45 percent in 2014/15 with the expected growth rates from 2.9 percent in the beginning to 6.1 percent by the end of APP.

APP-IAP Strategies in Livestock Sub-Sector

305. Livestock production in Nepal has the potential of growing into a highly viable commercial sector as well as an effective means of livelihood and poverty reduction. Hence

APP-IAP views this sub-sector from both perspectives. Similarly to forestry, livestock are both an input to agriculture and livelihoods, and a marketable output.

306. The APP-IAP considers the livestock sub-sector as one of the key entry points to reach the rural poor and, if correctly oriented to small animals, its development favours disadvantaged groups, such as women and poor farmers.

307. Given a high ratio between animal and human population in Nepal, improvements in productivity in livestock sector might be the basis for strong effects on GDP, poverty reduction, and also trade balance (initially through import substitution and later through export promotion). However the critical role of livestock in managing household risk and facilitating other agricultural enterprises means that the APP-IAP does not focus only on production and productivity but also on supporting and enhancing the efficiency of these wider contributions of livestock.

308. As the production and productivity of milk, meat, wool, fish etc could be enhanced either as one of the commodities under the national priority commodities or district priority commodities (chapter 4), this section focuses on inputs for the livestock production. However, it should be mentioned in the beginning of the section that the focus of the APP-IAP is on (a) increasing the productivity, (b) reducing the cost of production, (c) ensuring the quality of the products, and (d) supporting the wider contributions of livestock to livelihood systems even if this does not lead directly to increased livestock production. This last element will require a change in perspective from the normal production orientation if its huge potential benefits are to be achieved.

309. For the livestock sector, the APP-IAP **upholds a system-wide approach** that considers improvement in animal nutrition, animal health, animal breeding, as well as better linkages between input suppliers (feed, vaccines, drugs), farmers, and output processors and distributors (particularly for meat and milk).

310. **The system-wide approach** to livestock sector entails the development of the sector in an integrated manner from production to marketing of final products to consumers. The role of the public sector in promoting the development of the livestock sector is that of promoting and facilitating the growth of the private sector through technical support and the provision of public good core functions, partnerships with a variety of stakeholders, regulation and enforcement of rules, contracting out of services, and strong monitoring and evaluation of programs.

311. The APP-IAP is aimed at transforming traditional livestock farming into both commercial and pro-poor. For this, the three key elements need to be addressed- (a) productivity (b) market issues (c) institutional reforms. However, this section focuses on the first element only as the second element is discussed in market infrastructure and the institutional reforms aspect are addressed elsewhere within the appropriate issues and areas such as prioritisation, three pronged service delivery, market infrastructure, the private sector development and innovation system.

312. Annex 5.1 provides an example illustrating how livestock sector interventions could be adjusted to different categories of livestock farmers along the three pronged service delivery approach as suggested in Chapter 4.

Feed and Fodder Management

313. In Nepal, the most serious limiting factor in livestock production is acute shortage of feed supply. While the total ruminant livestock feed requirements is estimated at 9.3 million

mt of Total Digestible Nutrients (TDN) annually, only 5.9 million mt - about 66 percent are available indicating a deficit of 34 percent (ASPR, 2002).

314. Under present conditions, pastures are just sufficient enough to feed animals during the rainy season from July to September and during October to November. The most critical period lies between January to June when there is no grass available except sub-maintenance level of fodder leaves, straws and other roughage.

315. Poor nutrition causes delayed maturity in growing and breeding animals, lowered productivity, reduced work output, low calving rates with increased infertility, increased susceptibility to diseases and parasites resulting in higher mortality. What farmers do not want is ad hoc support provided in terms of the distribution of a few kilograms of forage seeds or fodder seedlings. Rather what they demand is the packaged support. The collection of seed of poor quality, inadequately trained manpower, and lack of fodder tree information on productivity and nutrient content have constrained on the development of fodder resources.

316. The APP-IAP strategy in the feed and fodder management is:

- a) *Undertaking of "fodder thrust" aimed at increasing the availability of adequate nutritious fodder through out the year, taking into account the complexity of current strategies and strategic interventions to improve these.*

317. **Poor animal health services and disease** situation is a second limiting factor affecting livestock development and their productivity (ASPR, 2002). Shortage of trained technicians and free-ranging management systems often expose to various infectious diseases and numerous parasites which in turn have resulted in poor health and low productivity.

318. The APP-IAP strategies in the veterinary services are:

- a) *Encouraging and supporting gradual privatisation of veterinary services*
- b) *Proactively developing, utilising and providing follow-up services to the Village Animal Health Workers*
- c) *Enhancing small livestock holders' access to diagnostic services, facilities and vaccine supplies.*

319. The third important aspect for improving the productivity for livestock is **breeding management**, which has scope for improvement. The same breeding sire is used for years within the herd leading to inbreeding and consequently resulting into decrease in productivity. Semen of proven bull as per the demand and requirement of the commercial dairy farmers are usually not available,. Likewise, the success of artificial insemination is low, especially in buffaloes. Introduction of artificial insemination through private sector using right semen in larger scale along with initiation of improved feeding practices and animal health services is an important option for some,. although this is unlikely to be an appropriate technology for many of Nepal's livestock-keepers at present.

320. Attention should also be given for the conservation, development and utilisation of indigenous genetic materials.

321. The APP-IAP strategy in the breeding management is:

- a) *Improvement in breeding services in appropriate ways, recognising differences between clients and systems.*

5.13 Agribusiness and Private Sector Development

322. Agribusiness is an important sub-sector of Nepal's agricultural and industry sector. It links the production, market and the industries. The rationale behind having agribusiness as the major output of APP was that it provides demand led agricultural enterprise diversification especially of high-value crops and livestock products. However, APP neither defined agribusiness in a precise way nor has it maintained clarity in development approach.

323. The APP-IAP envisages to promote agribusiness by improving the overall investment climate through the creative use of different models, mechanisms and incentives for stimulating, developing, supporting, and managing the private sector. Within the framework of the APP-IAP agribusiness encompasses (a) farm inputs agribusiness sector which provides inputs in the form of goods and services that largely determine farm costs, and (b) the output agribusiness sector which plays a pivotal role in determining the price of the output and value addition. The APP focused more on the output side. However, APP-IAP will provide equal focus to both the input and output sector despite that the value addition and processing in the area of agricultural production is of paramount importance to the APP-IAP.

324. Formal agribusinesses are complex and are vertically structured, with each component partly independent and unique by itself but also, to a large extent, dependent upon and having influence on the other components. Changes in any one component are likely to have an impact on the others. Central to the agribusiness is competitiveness and quality. Agribusiness products, in order to be competitive, must be of high quality.

325. However this is less so for the informal agribusiness sector, where the ability to provide services and products demanded by farmers is the key emphasis. Given the likely important role of this sector under conflict for some time, strategies by which this sector can be better understood and facilitated, and changed perspectives to ensure commitment to this objective, need to be developed.

326. In view of the above, for the promotion of formal and informal agribusiness, APP-IAP has proposed major institutional reforms in both the public and private sector. The reforms include provision for venture capital assistance together with a project development facility in formulation of economically viable agribusiness projects that might stimulate the private sector for the diversification of agricultural products.

327. The APP-IAP strategies in agri-business sector are as follows:

- a) *Attracting and facilitating private sector mobilisation*
- b) *Reforming public sector*
- c) *Improving the existing export and import policy*

5.14 Human Resources Development

328. Human resources development (HRD) is critical to the success of the APP-IAP. If the development of human resources does not match with the APP-IAP spirit, principles and strategies, the likelihood of catching up APP's outcomes and impact in the remaining period and to move beyond in the new spirit of the changed millennium – as reflected in the MDGs, would be remote. APP-IAP is very challenging and it calls upon tighter co-ordination and integrated efforts of several ministries, departments and agencies towards a common goal and agenda.

329. One of the key problems of the APP was the gross neglect to HRD issues. APP neither attempted to assess the capacity of those who are responsible for its implementation at different levels – from central to the district/VDC levels – nor suggested any measures or programmes for HRD to enable them to do businesses differently.

330. To enable the APP-IAP to penetrate at the grassroots levels, it is important that it takes care of all levels and categories of farmers-men and women, development workers and professionals including the administrative staff.

APP-IAP Strategies for HRD

331. Given that the APP-IAP expects highly from all quarters – public, private and CSOs, it has entrusted them with substantial roles and responsibilities. The policy reforms envisaged by the APP-IAP in the delivery of agricultural services requires those staff at district, regional and department levels who are proactive, capable and reoriented to respond to the changed situations and contexts.

332. In view of the above, APP-IAP requires to pursue three different HRD strategies at three levels- grassroots level, district and national level. Formulation of appropriate Human Development Policy/Strategies focused on APP-IAP is urgent.

6. Implementation of the APP-IAP

333. Prior to presenting an action plan for implementing the APP-IAP in the next chapter, this chapter deals with the institutional arrangements, financing and investment issues etc. necessary for implementing the APP strategies discussed in Chapter 4 and the sub-sectoral strategies outlined in Chapter 5.

334. The issue of implementation is very important, especially as Nepal's problem has been poor implementation of even good policies. The institutional context within which APP-IAP is implemented determines the success or failure of the APP-IAP.

335. This chapter, therefore, addresses one of the key root causes of the APP's sub-optimal performance- organizational weaknesses.

6.1 Institutional Arrangements

6.1.1 APP Management

Cabinet Secretariat, a Nodal Agency

336. As discussed earlier, APP is an interactive and interdependent plan involving many interrelated sectors, sub-sectors, public agencies, the farming communities, private entrepreneurs, NGOs and cooperatives. It directly encompasses at least 5 subject specific ministries namely, the Ministry of Agriculture and Cooperatives, the Ministry of Water Resources, The Ministry of Land Reform and Management, the Ministry of Forests and Soil Conservation and the Ministry of Local Development. Likewise, for its successful operation, it requires to get adequate and sufficient planning, coordination and monitoring support from the National Planning Commission and investment support and backing from the Ministry of Finance. The direct and indirect support, cooperation and participation of other agencies such as Nepal Rastra Bank, credit institutions like the Agricultural Development Bank, Agro-Enterprise Centre/FNCCI, private sectors and CSOs are also equally crucial.

337. In view of the above, it is important to have a nodal organisation for overseeing the implementation of the APP, facilitating other ministries and organisations towards the implementation of that part of the APP for which their organisation is responsible, identifying gaps and lapses if any, encouraging them to own and act on the APP. The nodal organisation is expected to mainstream APP in line ministries including the MOAC, rather than as an add-on activity.

338. Of the 5 ministries, all activities and functions carried out by the Ministry of Agriculture and Cooperatives come fully under the scope of the APP. For other ministries and organisations, APP is a part of their responsibilities. More than APP they are guided and directed by their respective Master Plans, e.g., Master Plan for the Forestry Sector (MPFS) for the MFSC and the Irrigation Policy for the DOI. However, for better performance, avoiding confusions and uncertainties and for serving the people better to meet their expectations and demands, achieving policy coherence between the sectoral master plan, sectoral policies and the APP is a must and the country cannot venture any experiments and trials further.

339. However, experiences, so far, of implementing the APP, suggest that the MOAC can't function as a nodal agency for the APP implementation as has been the case of the

Ministry of Local Development for the purpose of decentralisation. Facilitating to implement decentralization is other issue, but overseeing the implementation of a multi-sectoral strategy is different issue in the situation when component/subject specific line ministries operate with their own Master Plans such as the MPFS, DTMP, sectoral policies such as IP 2003, Forest Policy 2000, National Agriculture Policy 2004.

340. The APP-IAP appreciates the efforts of the MOAC to act as a nodal agency for the implementation of the APP. However, in view of the confusions, uncertainties, the resources required for implementing the APP-IAP, the need for strong supervision and monitoring, and the coordinated and integrated efforts required¹⁸, the APP-IAP proposes to make the Council of Ministers (Cabinet Secretariat) as the nodal agency for the implementation of the APP-IAP in which one of the Secretaries in the Council of Ministers be given the role of overseeing the implementation of the APP at the respective ministries. The MOAC, effectively, could provide the feedback and the necessary assistance to the Cabinet Secretariat.

341. The above does not decrease the roles and responsibilities of the MOAC, but implies additional roles and new challenges and responsibilities to it in view of the need to keep the Secretariat updated, active, transparent and accountable.

342. In view of the increased roles and responsibilities of the MOAC, the APP-IAP requires the strengthening of the following divisions of the MOAC along the following lines:

SN	Divisions	Strengthening areas/sectors
1	Planning Division ¹⁹	Change the name of the planning division to Planning and Coordination Division, Coordinating functions with other Ministries with regard to the planning and implementation of the APP-IAP, policy analysis which include agribusiness related works too. This division will oversee the implementation of the APP, establish linkages and liaison with the concerned ministries and organisations, achieve common understandings and remove misinterpretations etc.
2.	Monitoring and Evaluation Division ²⁰	Monitoring and Evaluating the performance of the APP and providing feedbacks to the Planning Division for better planning and improved coordination.
3.	Agriculture Business Promotion and Statistics Division	Take out the responsibility of agribusiness promotion activity from the statistics division and focus on strengthening the data collection and management activities, and undertaking additional activities such as disaster management and so forth.

343. Like the Planning Division of the MOAC, the respective planning divisions of other line ministries will be held responsible and accountable for the implementation of the APP

¹⁸ Addressing to the three root causes for the sub-optimal performance of the APP (weaknesses in the concept and design, investment issues and organisational weaknesses) with sixteen sets of problems by the MOAC alone is certainly not possible.

¹⁹ In view of the increased responsibilities of the Planning Division, the Joint Secretary position presently available with the MOAC be positioned at this division and some of the responsibilities might be shared by him/her.

²⁰ Delegating APP management responsibilities to the M and E Division, as is being practiced presently, has not only weakened the M and E works which is challenging and demanding, but also APP management has been poor.

and reporting to the Cabinet Secretariat. The Planning Division may designate any senior officer as an APP desk officer to coordinate and liaise with the Cabinet Secretariat and other ministries.

Independent Analysis and Support to the APP

344. The success of the APP-IAP depends to a large extent on the high level analysis, feedbacks, high level of trust and confidence between the public and private sector supported by adequate investment by the private sector. APP-IAP, therefore, strongly urges to re-establish and reactivate the APP independent analysis and support activities like in the early days of the APP implementation but, in far upgraded and reformed form.

345. The APP-ISR is critical to the performance and the location of the APPMAU. By virtue of being an unit within the M and E division, its capacity to provide independent, professional and critical opinions and views is questioned²¹. Addressing to all the three root causes related to the sub-optimal performance of the APP requires a highly professional, highly regarded organization capable of commanding respect and trust from both the public and private sector. Therefore, it is hereby suggested to establish an independent organization to assist and question the performance and actions of the Cabinet Secretariat, all line ministries and private sector organizations like the AEC/FNCCI- the name of which, we have proposed, is Centre for APP Analysis and Studies (CAAS).

346. Despite that the roles and responsibilities of the CAAS could be similar to that of APP-IAU, Annex 6.1 enumerates its major roles and responsibilities. These are tentative and subject to change or adjusted during the time of its establishment. The DFID's APPSP could assist the CAAS during its implementation, and if possible, for the sake of ownership, all the line ministries and FNCCI could allocate a part of its budget to the CAAS. However, besides reviewing the ministries reports and providing its technical inputs to them, the CAAS will make its independent reports and assessment of APP performance periodically for the public consumption at least in a trimester basis, and occasional papers for wider public-private discussions and sharing of experiences.

347. Of the four different options²² for the location of the CAAS, APP-IAP suggests for that option which envisaged the creation of the CAAS outside the government bureaucratic framework, but as a supporting agency to it, as was conceived in the APP²³. This has been suggested having analysed the strengths and weaknesses of each of the four options.

348. The CAAS should operate as an autonomous organisation with the NPC as a contact organization for the HMG (public sector affairs) and the Agro-Enterprises Centre of the FNCCI for the private sector affairs. After a few years of APP-IAP implementation, when line ministries and their concerned departments, NGOs and private sector start functioning as to the spirit of the APP-IAP, be accountable to their jobs and responsibilities and transparent to their actions, the CAAS could either be terminated or continue to function as to the changed context.

349. Although the structure of the CAAS is not proposed here, it will comprise high calibre, motivated and high profile multi-sectoral professionals who are selected/ appointed for a

²¹ APP-IAU established at the NPC was, to a greater extent, capable to analyse and critically assess the performance of the APP, partly because it was placed at the NPC which commands support and cooperation by the line ministries and partly because it was steered and managed by a worldwide renowned professional not other than John Mellor himself and again under the technical support of the ADB TA, which in itself independent.

²² Four options include (a) the Cabinet Secretariat (b) NPC (c) the MOAC (d) Elsewhere

²³ APP (Page 278)

fixed period of term from the market and the government organizations through a very transparent, open and equal opportunity selection procedures.

6.1.2 APP Coordination

350. APP is an interactive and interdependent plan crossing many interrelated sectors, sub-sectors, public agencies, the farming communities, private entrepreneurs, NGOs and cooperatives, its implementation needs to be closely coordinated and integrated.

351. For the above reason, the APP had proposed two powerful institutions at the national level- National Support Committee under the chairmanship of the Vice-Chairman of the National Planning Commission together with it the Independent Analytical Unit (IAU), which was supposed to be eyes and ear of the NASC. At the district level, it proposed the Subcommittee for the Implementation of the District Agricultural Program (SIDAP). Of the two, NASC was established and functioned for the first two years till ADB supported IAU as a part of its Technical Assistance and terminated after the decision of the government to establish APPMAU at the MOAC together with National Agricultural Development Committee and the Central Agricultural Development Implementation Committee. However, the performance of these committees and APPMAU remained far below to what they were supposed to perform and deliver (APP-ISR).

352. At the district level SIDAP was never established. As per provision in the APP-IP, the government was to form District Agriculture Development Committee (DADC), but it came into operation with the decision of the government on 13 March 2001- 4 years later and the APP-IP proposed DADC composition did not correspond with the new composition. The effectiveness of DADC is also questioned.

353. While the sub-sectoral importance of the coordination has increased many folds in the present situation, it has now become more complex because of different coordinating roles delegated to different ministries for different functions such as NPC and MLD for devolution, MOGA²⁴ and the NPC for human resources development aspects etc.

Central Coordination

354. With the Cabinet Secretariat acting as a nodal agency for overseeing the implementation of the APP and the establishment of the CAAS, the roles and responsibilities of the CADIC and the NADC need revisiting. They could function and work for all those activities and functions which are within the mandates of the MOAC. However, the high level of independent analysis and actions required for the APP calls for a high level of coordination at both the levels- horizontal and vertical.

355. In view of the cross-sectoral responsibilities and functions of the APP, the need to screen subsectoral and sectoral policies formulated by the subject specific line ministries carefully to make them coherent with the APP-IAP, and to facilitate the amendment of the APP-IAP based on the sub-sectoral policies, the APP-IAP proposes to form a National APP Committee (NAPCC) under the chairmanship of the Vice-Chairman of the National Planning Commission. The proposed composition of the committee is given in the Annex 6.2.

356. The NAPCC will provide interface among APP agencies and be a platform for joint action and collective decision-making. This committee will take all key decisions with regard to the APP implementation. Planning Division of all APP related ministries will submit three

²⁴ The government is even considering the possibility of changing the name of the MOGA to the Ministry of Human Resources Development.

trimester and one annual report to the committee in prescribed manner on APP performance in order that it will ensure transparency and accountability. The committee will review the report and give necessary instructions to concerned agencies, recommend for reward and punishment to the concerned organisations, and the respective officials. If any organization fails to submit its trimester and annual report in prescribed formats within the specified time limit to the Cabinet Secretariat, CAAS and the NPC, the Planning Divisions will be responsible for the delay.

357. The CAAS will assess the technical quality and reliability of the report and give its comments to the NAPPC. The CAAS comments and suggestions will provide the basis for NAPPC to make decisions. Not only will the CAAS comments and suggestions ensure triangulation of the Ministries Reports, but also expected to be a positive incentive to prepare the report timely, qualitatively, analytically and in a prescribed manner. The most important consideration for the report is the analysis and not the description.

358. Only those issues, which the NAPCC can't resolve, will be passed to the N-DAC (National Development Action Committee) formed under the chairmanship of the Hon. Prime-minister.

359. In every three years, NAPPC will review the APP-IAP, and make necessary adjustments and changes if necessary with the approval of the cabinet. For this, NAPCC will make use of the expertise and skills of the CAAS. While the Secretariat facilities for the NAPCC will be provided by the Member NPC (Agriculture), the CAAS will act as eyes and ear of the NAPCC and the Cabinet Secretariat.

360. At the regional level, the APP-IAP does not see any significant roles for any regional committee- partly because most of the APP related sectors/sub-sectors are already devolved to the local bodies. In the context of the devolution, APP-IAP suggest to review roles and responsibilities of the regional directorate, and if found necessary to continue them, limit to supervisory and technical backstopping responsibilities. Coordination at the regional level adds just one layer, and its presence at the moment has not been of any help.

District Coordination

361. For implementing APP within the decentralization framework provided by the LSGA where district line agencies plan, implement, monitor and supervise the programmes as per the facilitation, guidance and command of the DDC, APP-IAP suggests to reorganize the present District Agriculture Development Committee (DADC) formed by the decision of His Majesty's Government on 3 March 2001²⁵ and rename it as a District Agriculture and Natural Resources Committee (DANRC).

362. At the district level, DANRC can effectively monitor, coordinate and address sectoral issues holistically and effectively. For facilitating systems wide approach this is important. For providing adequate time for works, it is necessary to integrate different sectoral committees formed at the district level and this will also avoid duplications of representations and lower the number of meetings. More the committees, higher the cost, less the time for works and poorer the coordination. This is what the field studies and interactions with the district authorities show. Therefore, it is hereby proposed to form a single committee at the district level- the District Agriculture and Natural Resources Committee (DANRC), and for addressing sectoral issues, if DANRC is of the opinion that it is necessary, a sectoral subcommittee like the District Forest Coordination Committee will be formed/remain. But it

²⁵ The composition of the DADC suggested in the APP-IP and what was actually formed following the decision of the 13 March 2001 is different. Many districts have DADC but either do not have farmers' representatives or change from one meeting to the other for reasons unknown.

will be a part of the DANRC and be accountable to the DANRC. Independent identity of the sectoral committee is not necessary at the district level.

363. The DANRC should be made a part of the LSGA. The proposed DANRC should accommodate all agriculture related committees formed in the district as its sub-committees such as Livestock Action Team, the District Forest Development Committee and others if any. All such committees should be responsible and accountable to DANRC. Let LSG Rules define DANRC roles and responsibilities. The existing Agriculture and Environment Committee under the LSGA might not be necessary any more. There should not be two parallel committees doing the same works.

364. Suggested composition of the DANRC is given in Annex 6.3. The provision of the DANRC will facilitate the effective coordination of the APP implementing agencies in the district and make APP agencies responsible/accountable to the DDC. One of the root causes for the poor coordination at the district is the tendency of the line agencies to form different committees for their purposes. This should be discouraged and not allowed in the future. Figure 6.1 illustrates proposed institutional arrangements, coordination mechanism and functions.

6.1.3 Institutional Reforms

365. As discussed in the APP-ISR, one of the major bottlenecks in the implementation of the APP relates to the institutional aspects. Devolution of power and authorities to local bodies is one aspect of the institutional reform, but this is not a panacea. Equally important are other aspects of institutional reforms such as creating an environment and opportunities whereby the public, private and cooperative sector could co-exist together and that the privatisation can always not be an answer to all types of problems associated with the inefficiencies and weaknesses of the public sector.

366. Past experiences and a significant body of research show that agricultural research and extension can have strong and positive impacts on agricultural growth and on poverty reduction, when contextual conditions – the policy and institutional environment - are right. This exactly brings into the issues of appropriate institutional reforms. Many key State organisations, at present, have been performing at sub-optimal level particularly because of the weaknesses underlying in their creation, management, set-up and the delegation of power and authorities. The fate of the APP could be compared to someone who is asked to swim in a deep pond having tied up hands and legs.

Public Sector Reform

- Provide autonomy to government corporations, for example the Dairy Development Corporation, AICL, NSCL, NDDB, NTCDF, by initiating the system of appointing professional and accountable executives, which include chairperson and executive members, through open and transparent criteria/competition (right person in right position);
- Reorient and restructure as necessary the public sector Ministries and other organisations, particularly the government departments such as the DLS, DOA, DFTQC, DOI, NARC etc, in order that they would focus on core public good functions such as regulation, quality control, standardisation, enactment of appropriate laws and by-laws governing quality inputs, products and services and foster private sector development, and be sensitive to the problems and constraints of both the private and civil society organisations etc.
- Address management weaknesses and problems of the public sector as analysed in the APP-ISR through the development and application of the required rules and

processes, rewards and sanctions. This will require a sustained commitment to institutional reform.

- Make government organisations to focus on that areas and places where private sector has little incentives to deliver services, and where INGOs/NNGOs have not reached for some reasons.
- Ensure functional coordination among relevant actors and stakeholders which include not only among public sector organisations carrying similar functions or complementary to each others (DOA and DOI), but also with private organisations, traders, and CSOs;
- Appropriately manage and make provision for needs based induction and in-service training for staff particularly the grassroots staff and farmer's training considering the needs of the three categories of the target groups- development of HRD policy as a part of overall APP- HRD policy.
- Downsizing government bureaucracy taking into account gradual outsourcing of production related functions to the private sector and NGOs and devolution of functions and authorities to the local bodies.
- Discourage frequent staff transfer and adhere to the Civil Service Act and Rules;
- Develop highly professional M&E cadre at all levels in order to ensure highly transparent, accountable and participatory monitoring system.

Private Sector Facilitation

- Encourage private sector to operate in transparent manner and reorient them to trust the public sector/government bureaucracy (Attitudinal change)
- Emphasise the enabling role of government and enhance ability of private sector to analyse and develop policy in a consultative way to enhance the quality of the public sector enabling function.
- Provide level playing field between the public and private sector when both the sectors are involved in same nature of business, for example, DDC and private dairies in case of milk and milk products, AICL and private fertiliser importers for fertiliser trade and NSCL and private seeds producers and traders for seeds;
- Minimise public sector intervention through instruments such as subsidy and price control through government subsidiaries;
- Make private sector aware of quality and standardisation issues for the products they handle
- Provide reliable, timely and quality market information- international and domestic;

CSOs Facilitation

- Encourage CSOs to reach unreached areas and target groups;
- Publicly recognise the services of the CSOs;
- Provide opportunities for capacity building and training;
- Ensure transparencies in operation

6.2 Financing and Investment

367. Investment setback in APP implementation is repeatedly quoted as one of the three root causes for less than desired performance. APP-IAP approaches the problem from two perspectives – i) marshalling adequate resources, and ii) bringing about predictability in allocation.

Marshalling Adequate Resources

368. Considering that nearly 80 percent of Nepal lives in villages, agricultural growth will continue to be the engine of broad-based economic growth and development as well as of natural resource conservation, leave alone food security and poverty alleviation.

369. The major resources for APP implementation will therefore be to come from the national exchequer comprising the national revenue and that mobilized from the external sources. While the national revenue has been consistently under pressure to meet past debt obligations (about 34%) and other regular expenditures, the investment requirements will have to come from the external resource mobilization.

370. APP-IAP provides a more realistic basis and rationale for mobilizing the external resources for the agricultural sector through its specific action plan packages which can be more easily developed into bankable investment proposals. The need is to harmonise the donors which has been dealt in a separate section.

371. External financing not only comes from the donor assistance by way of bankable programmes and projects but also from the mobilization of joint venture investments from foreign investors. This will require an enabling environment pretty much the same as that required by domestic private investors which must be ensured. HMGN can mobilize Royal Nepalese Embassy officials for exploring such joint venture possibilities. Other job of the government will be to ensure that the foreign joint venture investors are credible individuals or establishments.

372. In all the external resource mobilization, be it loans or joint-ventures, the government must have an effective filter mechanism to entertain only those resources that are consistent with the national policy objectives. Such a filter mechanism is the evidence-based analysis of the funding offers and conditions.

373. Other source for financing APP is the mobilization of domestic private sector investment and the local bodies. Private investment in agriculture has been slow and must be stimulated through appropriate policies.

374. Under the decentralization, Local Bodies have added avenues of revenue generation which can be used in matching contribution against central grants for the implementation of the APP-IAP. However, the level of such matching should depend on the level of internal resources that each district is capable of generating. For districts with lower revenues matching requirements should be small. In other words, a working formula for local matching will have to be worked out.

375. All said and done, the budgetary funding in agricultural sector is declining disproportionately in recent years. This is because of the simultaneous existence of the other sectors which are more lucrative than agriculture. Following three points illustrate why agriculture must receive budgetary priority in Nepal despite low current returns:

- The direct high returns observed in non-agricultural sectors are partial reflections of the multiplier effects of the agricultural outcomes on these sectors and that the non-farm sector growth will be in a standstill without agricultural growth;
- The overriding national objective of poverty reduction cannot be met by the growth in other narrow-based sectors;
- The capital/output ratio is more favourable in agriculture

Bringing about Predictability in Allocation

376. The public sector investment allocated for the agricultural sector will be aligned with the MTEF. In MTEF, agricultural expense heads will be put under priority one so that the APP implementation is not constrained by allocation and timely availability of the funds. Much of this is already in place, yet some of the research components are still under lower priority in MTEF.

377. In order to bring about more predictability in investment within the sub-sectors, a formulae has to be worked out to allocate shares of the central allocation for agricultural development to each of the component of APP based on the priority. This will guarantee the predictable availability of funds for each component which will ease the planning process.

378. Another avenue for more predictable allocation could be to have special funding arrangements tied to specific sectors. For example, a proportion of the taxes on gasoline can be put to a special fund for rural and agricultural roads, part of proceeds on improved seeds and fees on market yard uses can be tied to research and extension funding. Other avenues of such sector-tied arrangements can be explored and used. This will help to guarantee threshold resources for identified priority sectors even in the absence of other funding sources.

379. As per the devolution policy of the government, each of the subject-specific ministries will allocate conditional and non-conditional (block) grants to the DDCs (Annex 6.4). While the amount of the non-conditional grants to the DDC will be based on definite formula/criteria and fulfilment of the minimum conditions (MCs)²⁶ and performance based criteria (PCs) such as shown in Box 6.1, the conditional grant could be provided to the districts by following either of the three processes or in combination- (a) competitive, (b) contract and (c) on demand by the district. The purpose of the conditional grant is two fold. The first objective is to undertake large scale projects covering more than one districts with specific purposes, schemes and reasons.

Box 6.1: Tentative Minimum Conditions for the Agricultural Services to be fulfilled by the DDCs

- Division of the district into clusters and sub-clusters covering whole district based on definite, clear and transparent criteria
- Formulation of strategy to identify and support poor, vulnerable and disadvantaged groups (special target groups);
- Formulation of District Agriculture Development Strategy

380. Provision of adequate investment is a side of the coin, the other side is the effectiveness of public expenditure.

6.3 Donor Harmonization

381. One of the root causes of limited APP implementation performance is the serious shortfall in investment. While government has its own budgetary limitations, much of the investment was envisaged to be met from external financing. The reason, among others, lies on the strategic nature of APP without the bankable action chunks. This gap will be addressed by APP-IAP.

²⁶ UNCDF supported Decentralized Financing Development Project (DFDP) is already using MCs and Performance based criteria (PCs) for allocating block grant to its 20 project districts.

382. However, even with the APP-IAP, external resource flow may be limited due to a number of other factors, which must be reviewed and acted upon. Firstly, donor resources may be influenced more by the donor organisational priorities and less by the needs of the recipient. Secondly, the foreign aid priorities are gradually drifting away from agriculture and other economic spheres to social arena. This is attributed to the shift from political aid to aid from religious charity trusts (sources of INGO funds). Thirdly, the need for donor harmonisation stems from weak institutional capacity to manage and administer assistance at the recipient end. Fourthly, the unpredictable political scenario has also limited the flow of external resources. Finally, donors are more likely to finance plans and strategies that they believe will be effective – it is arguable that the lack of external finance for the APP has been a case of donors voting with their money against an approach with which many were unconvinced. It is hoped that the updating of approaches in the APP-IAP will go some way to address this issue.

383. The first and second factors do not matter much for a small country like Nepal where the total assistance needs (both grant and loans) are a tiny fraction of the total global operation. What matters is Nepal's capacity to absorb and efficiently utilize the available resources. External resource supplies have always remained a function of their efficient use devoid of misappropriations. APP-IAP, therefore, targets on the proficient use of the donor resources by ensuring efficiency, transparency and accountability as its core and uncompromising elements as specified in its principles section, within a more convincing overall strategic framework (Chapter 3).

384. Donor harmonization can be done at two levels: i) overall programme level (based on HMG priorities, and ii) sectoral level. Following few paragraphs deal on the practices and needs for harmonization at the programme level:

385. The effectiveness of the external resources will also be enhanced through integration with the MTEF adopted by the government. The government needs to internalise and strengthen its MTEF process at all budget operation levels. These will improve confidence of the donors in the government budgetary process thus increasing the programme support (block aid), which the government can utilize in its discretion.

386. Another recent development in Nepal is the growing tendency of the donors to bypass the government citing reasons of inefficiency. The government, therefore, is inching closer to the separation of provisioning and production function with all direct implementation and production functions to the more efficient actors and limiting itself to facilitating functions. This process has also been aided by the conflict situation that has limited the government's penetration into the interior areas for direct implementation. This will rest assure the donors that their resources will ultimately land up in safe and efficient hands. This separation of provisioning and production function has not yet been thoroughly convincing to the donors and hence the government needs to expedite its dissemination by demonstration.

387. This is important for APP since even if the resources are there, the use of these resources on donor's discretion will likely create an imbalance in the APP-portfolio and such a balance can come only from the budgetary process.

388. Not all donors may opt to go for programme level or basket funding because of their sectoral priorities or country strategies. So individual sector funding may have to be accepted. The government will need to harmonise all donors funding a particular sector to have minimum common standards based on the national priority.

6.4 Monitoring and Evaluation

389. Putting in place effective M&E systems is critical to keep APP-IAP on track. The need to move quickly in this regard is magnified by the current changes in the APP implementation context and the consequent need to understand their impact on the APP. The three pronged service delivery approach, targeting, prop-poor policy reforms, devolution of power and authorities to the local bodies, gender mainstreaming and equity concerns etc. all mean that business as usual with M&E is not an option.

390. M&E systems are only worthwhile if the findings and lessons emerging feed into responsive planning and budgeting processes and result in changes and course corrections. Making this shift will entail long and hard negotiation processes. At present M&E systems are driven strongly from above with the data needs of the NPC and MOAC dictating what and how M&E systems work. This is what the APP-IAP envisages to reform.

Monitoring

391. Effective monitoring will be the key to the success of APP-IAP. This will help to bring out the problems, as and when they occur, to the attention of the problem-solving authorities at various levels culminating in the Cabinet. The APP-IAP will aim at broadening the concept of M&E to one of information management: with the aim of 'delivering the right information to the right people at the right time.

392. A wide range of stakeholders are expected to contribute to, and have an interest in, information generated by M&E systems, and particularly the rural poor will be empowered to claim better and quality services and to claim their rights to know about public expenditure.

393. APP-IAP activities and outcomes will have to be monitored at district, regional, ministry and national level. All processes, outcomes and impact will be monitored.

394. The responsibility for internal monitoring will be as follows:

- DDC will monitor the local level activities at the district level. The key unit in this regard will be the Information and Documentation Centre within the DDC.
- The respective regional directorates will monitor the district level activities within their command and report to the respective ministries and the districts simultaneously.
- Ministry level monitoring responsibility will lie with the M&E Divisions/Sections of the respective ministries who will report to the cabinet secretariat and the NPC besides providing copies to the regional directorates for transparency and accountability.
- The overall national monitoring will be undertaken by the Cabinet Secretariat, a nodal agency for APP management.
- The compiled monitoring information generated at ministry and regional levels will flow to CAAS as a part of the system for independent external monitoring and analysis, the results of which will be fed to the respective management levels. CAAS will also occasionally and randomly verify the field level information at the sites, particularly at the district levels.