

**MANAGEMENT RESPONSE ON THE PROJECT PERFORMANCE AUDIT REPORT
ON THE SECOND AGRICULTURE PROGRAM LOAN IN NEPAL
(Loan 1604-NEP[Sf])**

On 1 March 2005, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. The PPAR recommends steps on future ADB project support for agriculture, and also reiterates the recommendations of the Project Completion Report (PCR) of the subject loan project (the Project). Management in general agrees with these recommendations and will continue to actively monitor developments in the sector, including those related to the Project.
2. In particular, we would like to take note of the following aspects:
 - (i) On the PPAR's recommendations for future ADB lending, development of the pipeline projects listed in the footnote of para. 76 is proceeding.
 - (ii) On rural microcredit, action has already been taken to enhance capacity of the savings and credit cooperative societies established under the Microcredit Project for Women (L1237-NEP) through additional support provided under the newly approved project for Gender Equality and Empowerment of Women (L2143-NEP). New Projects for Decentralized Community-Based Water Management (2007) and Agribusiness (2007) will also consider linkages to rural microcredit as appropriate.
 - (iii) A draft fertilizer act was prepared in 2002, but could not be finalized due to dissolution of Parliament. However, we understand that the Ministry of Agriculture and Cooperatives (MOAC) is planning to set up a new committee to review the draft and forward it to Cabinet for discussion. Then, it would have to go to the Royal Palace for enactment as an ordinance. However, given the present political uncertainty in Nepal, MOAC cannot provide a timeframe to complete the process.
 - (iv) The National Food Cooperation (NFC) and the Agriculture Inputs Corporation have been reformed or restructured over the past several years, entailing downsizing of their staff by 34% in total. Food distribution by NFC is now operational only in remote hill or mountain districts. Although further downsizing of staff is planned, this has not been possible during the past two years due to the shortage of Government budget for staff compensation.
 - (v) There has been no further progress in the area of obsolete pesticide disposal. The Government has not been able to find donor assistance to dispose of pesticides, as was envisioned at the time of the PCR.

- (vi) Monitoring of agriculture sector performance, as recommended by the Agriculture Sector Performance Review (TA 3536-NEP) and the PCR, is underway with assistance from the DFID-financed Agriculture Perspective Plan (APP) support program.
- (vii) Lastly, we would like to embellish the discussion in para. 34 of the PPAR about what we view as one of the major achievements of the Project: withdrawal of the capital cost subsidy on shallow tubewells (STW). The Government appears committed to sustain this reform, although some politicians and bureaucrats still support such subsidies to agriculture. Implementation of the Community Groundwater Irrigation Sector Project (CGISP: Loan 1609-NEP) is proceeding well, and will provide a sound basis for the follow-on Decentralized Community-Based Water Management Project. The STW subsidy is not an issue at the district/farm levels. The Executing Agency is confident of achieving this year's target of 3,000 STW Installations. Based on 2004 data, the average cost per STW (including installation) had decreased by more than one-third (from NRs55,000 during the subsidy regime to NRs35,000 late last year) because of the much wider range of options available to farmers (capacity, brand, diesel versus electric motors, and so on) due to the deregulation of the STW trade. Thus, we are confident that the zero subsidy policy is working and can be sustained in the future. Moreover, CGISP is being implemented in a highly participatory and pro-poor manner; thus, the effect of the insurgency on the project's implementation has so far been minimal.