

AGRICULTURAL DEVELOPMENT FUNCTIONS AND INSTITUTIONAL ARRANGEMENTS IN FEDERAL NEPAL

A. Legal and Institutional Framework

1. The federal constitution of Nepal has functionally assigned the state responsibilities for the Agriculture and Natural Resources (ANR) sector to all three levels of governments—federal, provincial, and local. The larger field responsibilities for five subsectors of ANR sector—(i) agriculture and livestock, (ii) agriculture lands and cooperatives, (iii) forestry and environment conservation, (iv) rural development, and (v) irrigation—are mostly assigned to the local level but medium and larger level programs and policy matters are under provincial and federal spheres respectively.¹

2. The federal Ministry of Agriculture and Livestock Development (MOALD) has been created by merging former ministries of agriculture development and livestock and aviaries. The agriculture and livestock subsector (under the ANR sector) is the responsibility of several ministries with the institutional arrangements as follows (Table 1):

Table 1: Institutional Arrangements of Agriculture and Livestock

Federal	<p>Ministry of Agriculture and Livestock Development</p> <ol style="list-style-type: none"> 1. Seed Quality Control Center 2. Agriculture Information and Training Center 3. Plant Quarantine and Pest Management Centers (x15)
	<p>Department of Agriculture</p> <ol style="list-style-type: none"> 1. National Horticulture Development Center (x5) 2. National Potato, Vegetables, and Spice Crops Development Center (x4) 3. Central Agriculture Laboratory (soil, seed, and plant protection) 4. Agriculture Infrastructure Development and Mechanization Promotion Center (x1) 5. Industrial Entomology Development Center (x2) 6. Crop Development and Agriculture Biodiversity Conservation Center (x2 farms)
	<p>Department of Livestock services</p> <ol style="list-style-type: none"> 1. Central Fisheries Promotion and Conservation Center (x3) 2. Central Livestock Disease Investigation Laboratory (5) 3. Foot and Mouth and Stray Animal Diseases Investigation Laboratory 4. National Avian Disease Investigation Laboratory 5. Central Referral Veterinary Hospital 6. Veterinary Standards and Medicine Regulatory Laboratory 7. National Animal Vaccine Production Laboratory 8. Animal Quarantine Office (x8) 9. National Livestock Breeding (x3) 10. National Livestock Resources Management and Promotion (x5) 11. National Animal Feed and Livestock Quality Management Laboratory 12. Rhizobium and Forage Seed Production Laboratory
	<p>Department of Food Technology and Quality Control</p> <ol style="list-style-type: none"> 1. Food technology and quality control offices - Divisional offices x4, and food import and/or export quality certification offices x12
Provincial	<p>Ministry of Land Management, Agricultural, and Cooperatives</p> <ol style="list-style-type: none"> 1. Agricultural Development Directorate 2. Agriculture knowledge centers (different numbers in different provinces ranging from 6 to 11) 3. Agribusiness Promotion, Support, and Training Center

¹ This note will focus on agriculture and livestock subsector.

	4. Cooperative Academy 5. Laboratories—seed, plant protection, soil (some provinces do not have these)
	1. Livestock and fisheries development directorate centers 2. Veterinary Hospital and Animal Care Specialist Center 3. Livestock Service Training Center 4. Fisheries Development Center
Local	Agriculture and Livestock Sections 1. Agriculture Service Centers (x378) 2. Livestock Service Centers (x900) including subcenters

Note: Some agencies are still under federal government yet to be transferred to provincial governments, e.g. horticulture centers, some laboratories, sericulture centers, crops development center.

Source: Executive decisions made by the Federal and Provincial Governments of Nepal, Office of the Prime Minister and Council of Ministers.

3. The Acts which provide the legal framework to the agriculture and livestock subsector are (i) Land Act (1967), (ii) Food Act (1996), (iii) Pesticide Act (1991), (iv) Nepal Agricultural Research Council Act (1992), (v) Mines and Mineral Act (1993), and (vi) CITES Act (2017). There are several policies related to the subsector, such as, (i) Land Use Policy (2015), (ii) Agriculture Policy (2004), (iii) Irrigation Policy (2003), and (iv) Fertilizer Policy (2002).

4. The Government of Nepal has formulated the Agricultural Development Strategy (ADS, 2015–2035) as a 20-year vision for agriculture development in Nepal to accelerate agricultural growth through four strategic components related to commercialization, productivity, competitiveness, and governance while promoting inclusiveness and sustainability.

B. Responsibilities of (Federal, Provincial, and Local) governments in Agriculture

5. The responsibilities of all the three government tiers in agriculture sector, as per the constitutional provisions are provided in Table 2. Exclusive rights of the three government tiers in agriculture and livestock are provided in Annex 1.

Table 2: Responsibilities all the Government Tiers in Agriculture Sector

Federal	Provincial	Local
Agriculture and Biodiversity		
Technology-related policies, laws, standards, and regulations	Provincial policies, laws, standards, plans, implementation and regulation related to agriculture, agriculture production, livestock development, and food nutrition	Implementation, monitoring, and regulation of local policies, laws, standards, and plans
Food Security and Sovereignty		
Food security, sovereignty, rights, quality, and purity-related policies, laws, standards, and regulations	Provincial food security, rights, sovereignty, and quality	
Livestock Products (dairy, meat...)		
Policies, laws, standards, and regulation		Animal slaughterhouse, cold storage management, and regulation
Agribusiness		
Agri-industrialization, fisheries and livestock businesses,	Agriculture industrialization and livestock industry and business development and promotion	High-value agriculture products promotion,

Federal	Provincial	Local
inter-provincial development, promotion, and coordination		development, and marketization
Agriculture Research		
Nepal Agriculture Research Council and dairy products research and development		
Agriculture Extension		
	Agriculture and/or livestock extension, farmers training, and capacity building and empowerment	Management, operation and control of agriculture extension ^a
Agriculture Infrastructure and Markets		
	Development, promotion, and operation of agriculture markets, infrastructure, and agriculture farm centers	Operation, monitoring, and regulation of agriculture and livestock market/ <i>Haat bazar</i> , infrastructure, small irrigation, training, technology extension and/or support, agri-inputs supply, farmers' capacity development
Agriculture Mechanization		
	Agriculture and livestock mechanization, and improved tools development and promotion	
Fertilizers, Seeds, and Animal Breeds		
Chemical and organic fertilizer production, import and use of related policies, laws, standards, quality determination, coordination and regulation Seeds seedlings and breed-related national standards determination and regulation	Agriculture fertilizer, seeds and pesticides supply management and regulation Quality determination, affiliation, determination, standardization, certification and regulation of agriculture produce, agricultural products, livestock, livestock products, animal production inputs and seeds and seedlings, and breed-related services and technologies	Animal breed improvement system development and management
Animal Feed		
Policies, laws, standards, quality determination, import permission and regulations		Animal feed quality regulation
Pasture and Range Land		
Inter-country grazing and range land-related policies, laws and regulations	Provincial policies and legal formulation, implementation and regulation	Local pasture and range land development and management
Diseases and Epidemic Control		
Agriculture, fisheries, and livestock diseases outbreaks control	Agriculture and livestock-related diseases, insects and epidemic control Disease diagnosis laboratory management and regulation	Agriculture and livestock-related natural disaster and disease outbreak control

Federal	Provincial	Local
Veterinary Medicine and Pesticides		
<p>Agriculture and veterinary medicine, micronutrients, herbicides and pesticides use and management-related policies, laws, standards and regulations</p> <p>Pesticides standardization, information collection, classification, dissemination and regulation</p>	<p>Provincial policies, laws, and standard formulation and implementation of agriculture and livestock-related medicines, pesticides and utilization and management of micronutrients rich products, and licensing, monitoring and regulation of production, utilization, sales and distribution</p>	
Veterinary Services		
<p>National policies, laws, standards and management</p> <p>Veterinary doctors' registration, license, renewal, regulation</p>	<p>Registration, licensing, renewal, cancellation and regulation of para-vet based on national policies and standards</p>	<p>Veterinary services management</p> <p>Livestock and veterinary-related other activities</p>
Farming Modality		
	<p>Implementation and promotion of collective farming, cooperative farming, and contract farming</p> <p>Implementation of minimum support price for agriculture crops</p>	
Support Price, Insurance and Credit		
<p>Agriculture and livestock insurance-related policies and standards</p>	<p>Implementation of minimum support price for agriculture crops</p> <p>Insurance-related policy and plan formulation and implementation</p>	<p>Livestock-related insurance and credit facilitation</p>
Quarantine, Accreditation, and Certification		
<p>Policies, laws, standards, implementation, and regulations</p> <p>International accreditation and certification laboratory development and management</p> <p>Livestock service-related laboratory affiliation</p>		
Foreign Trade, Treaties and Agreements, and Statistics		
<p>Foreign trade facilitation</p> <p>Agriculture statistic system, research and data source protection, development and promotion</p> <p>National and international treaties, agreements,</p>	<p>Agriculture, livestock and food technology-related study, research and development and promotion, specialized services, data system management and dissemination</p>	<p>Local level livestock-related statistics management and information system</p>

Federal	Provincial	Local
conventions communication and coordination		
Agencies and Civil Services		
<p>National Farmers Commission</p> <p>Ministry-related public enterprise, institutions, companies' operation and regulation</p> <p>Operation of Nepal agriculture services</p>		
Land Management and Cooperatives		
	<p>Land management, administration, measurement, reform, classification and consolidation-related policies, laws and standard formulation, implementation and regulation</p> <p>Record management of private, government and public land</p> <p>Land registration, ownership certificate, deregistration, ownership handover-related policies and standard formulation and implementation</p> <p>Land map received from the federal government, geographical information and documentation, and documentation management of maps and archive within province</p> <p>Establishment of network of survey and mapping control points</p> <p>Scientific plot surveying of land and record-related standard and implementation</p> <p>Provincial policies, laws, standard and plan related to settlement livelihood and rehabilitation of landless people</p> <p>Government land leasing-related policies, laws and standard</p> <p>Policy implementation for safe settlement and land consolidation</p> <p><i>Guthi</i> and <i>Guthi</i> land management-related policies, laws, standard, and plan formulation, implementation, regulation; <i>Guthi</i> land preservation, record</p>	

Federal	Provincial	Local
	<p>management and coordination with federal and local levels</p> <p>Poverty alleviation-related policies, laws, standard, plan formulation, implementation, regulation, study, research, survey, identification of poor households, social security and/or protection.</p> <p>Cooperative-related policies, laws and standard formulation, implementation, operation licensing, regulation, data management, study, research, coordination, promotion, capacity development</p>	

^a Extension services: (i) agriculture extension-related local policies, laws, standards, plans implementation, monitoring and regulation; (ii) projection, management and mobilization of agriculture extension and manpower; (iii) capacity enhancement, technical support, assistance, skill development, and empowerment of farmers; (iv) supply, use and regulation of agriculture seeds, seedlings, breeds, fertilizers and chemicals, and medicines; (v) coordination, management and regulation of farmers' groups, agriculture cooperatives, and agriculture-related organizations and associations; (vi) preservation and handing over of local level agriculture-related technologies and techniques; (vii) dissemination of agriculture-related information; (viii) development and management of local resource centers; (ix) development, dissemination, and promotion of organic farming and organic fertilizers; (x) any other activities related to agriculture extension management, operation, and control.

Note: (i) For specific national priorities, the federal government's policies shall override contradicting policies by the subnational governments; (ii) Agriculture standards of the federal government shall also apply to subnational services especially those that pertain to International Commitment.

Source: (i) Constitution of Nepal 2015, (ii) Government of Nepal (Business Allocations) Rules 2018, and (iii) Local Governments Operations Act 2017.

C. Institutional-related Issues and Challenges

6. **Poor linkage and lack of coordination among the government tiers.** In the present structure, there is no linkage—both administrative and programmatic—among the three government tiers. They all function independently. This lack of coordination among the three government tiers on agricultural development programs and activities has contributed to overlaps, duplications, and gaps. Further, the concurrent functions among the tiers have also increased confusions and overlaps, e.g. while 'agricultural and livestock development' (Schedule 6) has been specified as a provincial function, 'agriculture and animal husbandry, agro-products management, animal health, and cooperatives' (Schedule 8) have been specified as local functions. Similarly, while "agricultural extension" is a sole function of local governments, "agricultural development," which covers agricultural extension, is a concurrent function of provincial and federal governments. In the absence of communication and coordination mechanisms, effective implementation of ADS at the subnational government levels is also affected.

7. **Poor institutional capacity and ineffective institutional arrangements.** The limited institutional capacity of subnational governments, including inadequate and unskilled staffs has increased the challenges in effectively planning and executing agriculture development programs that would contribute to the achievement of desired results. Also, inadequate monitoring, evaluation, and regulation of agriculture programs and activities have shrunk the development outcomes in the sector. More importantly, the current institutional arrangements are ineffective in

agriculture development and support and are contributing to overlaps and confusions, e.g. agriculture knowledge centers (AKCs), under provincial governments are providing extension services, whereas the function (extension services) is the mandate of local governments (LGs). The issue, however, is that AKCs are better staffed in terms of the number of technical staff and expertise, but LGs are not. Also, research and/or resource centers located in different districts are under the Nepal Agriculture Research Centers (NARC), which is under the federal government. AKCs are assigned to share NARC's findings to farmers, or orient and train them on new tools and technology. This raises a question as to whether the orientation and training to farmers are part of the extension service and if so, should not this be the role of LGs? Irrespective of the role, LGs engagement with NARC and AKC in research and necessary support to farmers is critical but seems to be missing in the current institutional arrangement. Moreover, the scheme such as the Prime Minister's Agriculture Mechanization Program (PMAMP), which is implemented largely under the federal government without adequate and appropriate coordination and partnership with provincial and local governments (except for small subprojects under the program),² and this has further exacerbated the challenge of coordination and effective utilization of limited resources for intended development impacts. This has also undermined the constitutional roles of subnational governments (as agriculture is one of the largely devolved sectors).

8. Clear delineation of roles, responsibilities, and authorities among the three government tiers, and appropriate institutional arrangements that align with the respective roles are critical to address the challenges of poor coordination, overlaps, duplications, and effective utilization of the limited resources. Institutional strengthening needs, including capacity development of staffs in the respective agencies need to be identified, planned (with adequate resources, both human and finance), and implemented in a phase-wise manner.

9. **Agriculture subsidy is ineffective in sustainable agricultural development, growth, and promoting commercialization.** There are different kinds of subsidies prevalent in agriculture sector. A study on 'Agriculture Subsidy Effectiveness (by MOALD)' and ADB's own learning from the interactions with different stakeholders at all levels of governments have shown that the current subsidy regime is ineffective for sustainable agricultural development, growth, and promoting commercialization. The poor performance of most of the subsidy schemes have been attributed to several factors, such as (i) policy incoherence, (ii) lack of specific measurable objectives, (iii) problem of target group identification, (iv) lack of clarity on areas for subsidies, (v) lack of integrated database to avoid the same person receiving multiple subsidies, and (v) poor governance and leakages in managing and distributing subsidies. The competitive grant schemes have caused market distortions and fraudulent behaviors and benefits of these schemes have been mostly captured by elites.

D. Revenues and Budget

10. Most revenues of subnational governments (SNGs) come from intergovernmental transfers rather than own-sourced revenues as most revenue-raising authority lies with the federal government, while many expenditure obligations lie with the SNGs. Own-source revenues of

² Rs1.55 billion has been allocated (FY2019) as conditional grants to 51 agriculture knowledge centers (AKCs) under provincial governments to execute projects under 'blocks' (100 hectares) and 'pockets' (10 hectares). In FY2018, Rs2.35 billion was allocated as unconditional grants to local governments for the subprojects, but the fund was reportedly diverted from the Prime Minister's Agriculture Mechanization Program (PMAMP) and spent for other infrastructure development work. The PMAMP then changed the operational modality and diverted funds to provincial governments in FY2019. There is, however, an apprehension that program effectiveness may suffer due to weak outreach capacity of AKCs (and without local governments' support).

SNGs include user charges and fees; sales taxes on sand, boulders, and wood; and rent and tenancy property taxes. However, local governments lack the autonomy to set tax rates or bases.

11. **Agro-income tax** is the only tax assigned exclusively to the SNGs. Since agriculture is an activity characterized by low-income generation and high volatility, its revenue potential is limited.³ In addition, there are issues such as lack of administrative capacity at the SNG level, absence of relevant database, difference in agricultural income tax rate (lower) vis-à-vis central income tax rate (higher) potentially resulting in tax evasion by overstating agricultural income and understating non-agricultural income. In order to address the problem of low potential revenue, initially, commercial and plantation crops may be taxed.

12. **Land tax.** This is exclusively assigned to the jurisdiction of local governments. Land used for urban plants, floriculture, exotic plants with export potential may be taxed at higher rates and land used for subsistence agriculture may have to be exempted.

13. **Budget for FY2019/20.** The federal budget of NRs1,533.0 billion (39.6% of gross domestic product) is expansionary as it was for FY2018/19 and 26.9% higher than the revised budget estimate of FY2018/19. The budget allocation for agriculture, forestry, and fisheries sector was NR79.8 billion (approximately \$715 million), equivalent to 5.2% of the total federal budget allocation. Within the sector, expenditure will continue to be heavily dominated by federal level government expenditure representing 82.5% while the expenditure share of provinces is 15.2% and local level government is just 2.1%. The continuing dominance of federal level expenditure contrasts with the substantially devolved nature of the sector implied in the assigned powers of the constitution and the principle of subsidiarity for the multiple concurrent powers.

³ Under the unitary system, the central government had the power to levy agro-income tax but had chosen to exempt it. As per the Income Tax Act 2000, the agricultural income derived by a person from sources in Nepal other than income from an agriculture business derived by a firm, company, or partnership were exempted.

**EXCLUSIVE POWERS OF FEDERATION ON AGRICULTURE
(Schedule 5 of the Constitution)**

1	National policy, law and standardization and regulation relating to agriculture
2	National policy and standardization and regulation relating to biological diversity and biological technology
3	Relation and coordination with multilateral and bilateral agencies and organizations relating to agriculture
4	Statistic system of national standard, study, research, resource protection, development and expansion relating to agriculture
5	Development and management of international accreditation relating to agriculture and food
6	International trade facilitation and regulation relating to agriculture and food
7	Coordination and regulation relating to imported fertilizer supply
8	International epidemic control of agriculture and livestock
9	National policy, standardization relating to veterinary
10	Registration, permission, renew, dismissal, and regulation of veterinary doctor
11	Interstate development and promotion of agriculture, industrialization, livestock industry business
12	Determination of national quality and regulation relating to seed and breeding
13	Policy, law, and regulation relating to inland pasture and barren land
14	National food security, food rights, and food sovereignty
15	Policy, law, standards, implementation and regulation relating to quality of food stuffs quarantine and hygienic food
16	Policy, law, standards, implementation, and regulation relating to animal and botanical quarantine
17	Policy, laws, standards, planning, and regulation relating to use of land
18	Food security, food rights, and food sovereignty
19	Federal food nutrition policy formulation and monitoring
20	Agriculture and livestock relating drugs and pesticides
20.1	Policy, law, standards, and regulation relating to agriculture and livestock relating drugs, utilization, and management of micro nutritional and pesticides
20.2	Information collection and information delivery of permitted and restricted pesticides in international level
20.3	Relation, coordination, and cooperation with international organizations relating to pesticide control and management
20.4	Import permission and regulation of drugs and pesticides

Source: Federalism Implementation and Administration Restructuring Coordination Committee Report, Office of the Prime Minister and Council of Ministers.

Exclusive Powers of Province on Agriculture

1	Provincial policy, law, standards, planning, implementation, and regulation relating to agriculture, livestock development, and food nutrition
2	Agriculture and livestock-related diseases, insects, and epidemic control
3	Matters relating to agricultural industrialization, development of livestock-related industry occupation and promotion
4	Matters relating to agriculture and livestock mechanization and development of developed equipment and expansion

5	Registration, permission, renewal, dismissal, and regulation of para vet according to national policy and state
6	Management and regulation of curing laboratory for agriculture and livestock diseases
7	Quality determination and regulation of agriculture product, livestock, livestock-related materials and animal product materials
8	Affiliation, standardization, determination of quality and certification of agricultural materials, services and technology
9	Quality control and regulation relating to seed and breeding
10	Provincial policy, law, and regulation relating to grazing land and barren field
11	Matters relating to provincial food security, food rights, and food sovereignty
12	Matters relating to agriculture-related provincial statistic system, study, research, source protection, development, and expansion and common agriculture system
13	Study, research, development, and promotion relating to agriculture, and livestock related and food technology
14	Matters relating to agriculture fertilizer, seeds, and pesticides supply management and regulation
15	Development and management of provincial laboratory relating to agriculture livestock and food
16	Matters relating to agriculture extension, farmer training, and capacity development and empowerment
17	Minimum price implementation of agricultural products
18	Planning and implementation relating to agriculture and livestock insurance
19	Matters relating to agriculture market and infrastructure development and operation
20	Development and management of agriculture firm center
21	Provincial policy, law, standards, implementation and regulation relating to use of drugs and pesticides
22	Permission and regulation relating of sale and distribution according to the pesticide standards
23	Standard implementation of agriculture-related micro nutritional goods and pesticides
24	Production and regulation of livestock medicine
25	Monitoring and control of production, sale, and use of pesticides

Source: Federalism Implementation and Administration Restructuring Coordination Committee Report, Office of the Prime Minister and Council of Ministers.

Rights and the Functions of the Municipal Government on Agriculture

1	Agriculture and animal husbandry, agro-product management, and animal health
2	Local policy, law, standards, planning, implementation, and regulation relating to agriculture and animal husbandry, agro-product management, and animal health
3	Matters relating to agriculture and livestock market information, market and market day (Haat Bazaar), infrastructure construction, construction of small irrigation, trainings, technology expansion, technical support, supply of agriculture materials and farmer capacity, implementation and regulation of development programs
4	Control of agriculture and livestock-related natural hazard and epidemic disease
5	Management of livestock medical services
6	Matters relating to agriculture environment protection, bio-diversity protection and promotion
7	Promotion, development, and marketing of high-value agriculture-related materials
8	Development and management of animal breeding improvement system
9	Management of local pasture and barren land
10	Quality regulation and animal food and/or stuff

11	Data management and information system in local level
12	Management and regulation of slaughterhouse and cold storage
13	Insurance and loan facilitation relating to agriculture and livestock
14	Construction and improvement of small irrigation
15	Local policy, law, standards, planning, implementation, and regulation relating to agriculture extension
16	Projection, management, and mobilization of agriculture extension and manpower in local level
17	Capacity building, technical service, support, skill development, and empowerment of farmers
18	Supply, use, and regulation of seeds, breeding, fertilizer, and chemical and medicines
19	Coordination, management, and regulation of farmer groups, cooperatives, and local organizations
20	Technology protection and handover relating to agriculture in local level
21	Information publicity relating to agriculture
22	Development and management of resource centers of local level

Source: Federalism Implementation and Administration Restructuring Coordination Committee Report, Office of the Prime Minister and Council of Ministers.