



# Report and Recommendation of the President to the Board of Directors

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Project Number: 48218-010  
October 2019

## Proposed Policy-Based Loan and Technical Assistance Grant Nepal: Food Safety and Agriculture Commercialization Program

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 20 September 2019)

Currency unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.00876
\$1.00	=	NRs114.120

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADS	–	Agriculture Development Strategy
GDP	–	gross domestic product
GESI	–	gender equality and social inclusion
ha	–	hectare
HLC	–	high-level committee
ISO/IEC	–	International Organization for Standardization/International Electrotechnical Commission
kg	–	kilogram
MOALD	–	Ministry of Agriculture and Livestock Development
MOF	–	Ministry of Finance
MOLMAC	–	Ministry of Land Management, Agriculture, and Cooperatives
MRL	–	maximum residue level
PBL	–	policy-based loan
TA	–	technical assistance
USAID	–	United States Agency for International Development

## NOTES

- (i) The fiscal year (FY) of the Government of Nepal and its agencies ends in mid-July. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2019 ends on 16 July 2019.
- (ii) In this report, "\$" refers to United States dollars.

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## PROGRAM AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 48218-010	
<b>Project Name</b>	Food Safety and Agriculture Commercialization Program	<b>Department/Division</b>	SARD/SAER
<b>Country</b>	Nepal	<b>Executing Agency</b>	International Economic Cooperation Coordination Division, Ministry of Finance
<b>Borrower</b>	Government of Nepal		
<b>Country Economic Indicators</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=48218-010-CEI">https://www.adb.org/Documents/LinkedDocs/?id=48218-010-CEI</a>		
<b>Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=48218-010-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=48218-010-PortAtaGlance</a>		
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Agriculture, natural resources and rural development</b>	Agricultural policy, institutional and capacity development	50.00	
		<b>Total</b>	<b>50.00</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
✓ Addressing remaining poverty and reducing inequalities		Climate Change impact on the Project	Low
✓ Accelerating progress in gender equality			
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ Promoting rural development and food security			
✓ Strengthening governance and institutional capacity			
<b>Sustainable Development Goals</b>		<b>Gender Equity and Mainstreaming</b>	
SDG 1.a		Effective gender mainstreaming (EGM)	✓
SDG 2.c			
SDG 5.c			
		<b>Poverty Targeting</b>	
		General Intervention on Poverty	✓
<b>4. Risk Categorization:</b>	Low		
<b>5. Safeguard Categorization</b>	<b>Environment: C Involuntary Resettlement: C Indigenous Peoples: B</b>		
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>50.00</b>	
Sovereign Stand-Alone Policy-Based Lending (Concessional Loan): Ordinary capital resources		50.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>0.00</b>	
None		0.00	
<b>Total</b>		<b>50.00</b>	
Note: An attached technical assistance will be financed on a grant basis by the Technical Assistance Special Fund (TASF-6) in the amount of \$500,000.			
<b>Currency of ADB Financing:</b> US Dollar			



## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan (PBL) to Nepal for the Food Safety and Agriculture Commercialization Program. The report also describes proposed technical assistance (TA) for Supporting the Food Safety and Agriculture Commercialization Program, and if the Board approves the proposed loan, I, acting under the authority delegated to me by the Board, approve the TA.

2. The program will provide budget support for reforms to (i) improve food safety and quality monitoring systems that will reduce transaction time and costs for exporters, and protect public health by preventing unsafe food consumption; (ii) promote agricultural commercialization to support farmers in their transition from subsistence farming to profit-making production and sales; and (iii) strengthen institutional capacity, particularly at the subnational government level, given the devolved nature of agriculture. The program will also support Nepal's agriculture sector with regard to policy and regulatory amendments in the transition from a unitary to federal structure. The program is consistent with Asian Development Bank (ADB) country partnership strategy for Nepal, 2013–2017.<sup>1</sup> The program is aligned with ADB's Strategy 2030, specifically the operational priorities on (i) accelerating progress in gender equality (operational priority 2), (ii) promoting rural development and food security (operational priority 5), and (iii) strengthening governance and institutional capacity (operational priority 6).

## II. PROGRAM AND RATIONALE

### A. Background and Development Constraints

3. Nepal has undergone many years of political turmoil, including an armed conflict that ended in 2006. The country also suffered a destructive earthquake in 2015, but is now on a path to political stability and economic recovery. However, Nepal remains one of the poorest countries in Asia—in FY2018, gross domestic product per capita was \$993.9, and an estimated 18.7%<sup>2</sup> of the population lived in poverty, mostly in rural areas. Agriculture still relies mostly on subsistence farming. Of the working age population (above 15 years), 55% are engaged in subsistence agriculture, of whom 61% are women.<sup>3</sup> Less than 10% of farm holdings produce exclusively to sell and are small-scale due to increasingly fragmented land ownership structure. The agriculture sector contributed 27.0% of GDP in 2019 and annual growth in agriculture sector gross domestic product (GDP) at constant prices has increased from 0.2% in FY2016 to an average of 4.3% during FY2017–FY2019 as a result of a favorable monsoon and resulting large harvests in FY2017 and FY2019; this has also contributed to subdued food price inflation.

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<sup>1</sup> Asian Development Bank (ADB). 2012. *Country Partnership Strategy: Nepal, 2013–2017*. Manila (extended to 2019). The program is also consistent with ADB. Forthcoming. *Country Partnership Strategy: Nepal, 2020–2024—Promoting Connectivity, Devolved Services, and Resilience*. Manila. The program is included in ADB. 2018. *Country Operations Business Plan: Nepal, 2019–2021*. Manila as part of the sector development program loan of \$70 million of ADB financing (Targeted Value Chain Development Program). At the request of the government, this sector development program has been separated into two loans: a PBL and an investment project.

<sup>2</sup> The actual poverty rate will be available after the new National Living Standard Survey is completed in 2020. The last survey was completed in 2011 which reported 25.2% of the population living below the national poverty line.

<sup>3</sup> Government of Nepal, Central Bureau of Statistics. 2019. *Report on the Nepal Labour Force Survey, 2017/18*. Kathmandu; and Central Bureau of Statistics. 2019. *National Accounts 2018/19*. Kathmandu. Men are mostly employed in construction, manufacturing, and transport services, while women are mostly employed in agriculture, forestry, and fishing—supporting the claim that Nepal's agriculture sector is largely dependent on women's labor.

4. **Low agriculture productivity.** Despite Nepal's recent agricultural growth, agricultural productivity remains the lowest in South Asia.<sup>4</sup> For example, cereal yield was 2,796 kilograms (kg) per hectare (ha) in 2017, compared with 4,411 kg/ha in Bangladesh and 3,371 kg/ha in Bhutan.<sup>5</sup> The key structural constraints of Nepal's agriculture and food distribution system that suppress its productivity include (i) the dominance of subsistence farming, (ii) poor adoption of suitable on-farm and post-harvest technology; (iii) the lack of timely supply of quality inputs such as fertilizer, feeds, and seeds; and (iv) limited financial services and infrastructure, such as irrigation and roads. Gender barriers also prevent women and marginalized groups from accessing resources and opportunities to improve agricultural productivity.<sup>6</sup> While quality seeds alone can increase agricultural production by 15%–20%, most farmers in Nepal use locally available seeds retained from previous cropping seasons because of poor penetration of formal seed markets in rural areas, inadequate seed multiplication, and the lower cost of locally available seeds, resulting in less than 10% of farmers currently purchasing seeds for major cereal crops.<sup>7</sup> The public sector dominates in seed multiplication of cereal crops, although private seed companies also produce seeds and are increasingly involved in vegetable seed multiplication.<sup>8</sup> The amendment of the Seed Act and the standard-setting for seed testing are critical steps in creating an enabling policy environment to protect farmers and encourage the private sector to engage in seed multiplication, distribution, and collaborative variety development.

5. **Low levels of agricultural commercialization.** Agribusiness in Nepal is diverse and involved in poultry, dairy, spices, fruits, tea, ginger, cardamom, coffee, and honey, among other commodities. It is dominated by millions of small landholdings and many thousands of small agribusinesses and traders. Given the limited arable land per capita, fragmented and small-scale agribusinesses cannot leverage the advantages of scale. Lessons from recent ADB projects in Nepal suggest policies and regulatory reforms that facilitate better land use planning, land consolidation, and contract farming to allow the agriculture and food system to respond effectively to increasing market demand. Commercialization is further constrained by the limited capacity of farmers to prepare bankable business proposals to seek formal financing (footnote 6). By addressing some of these key constraints, the program will create synergies with other agriculture financing and value chain initiatives being financed by ADB and other key development partners and support subsequent investment projects planned by ADB to support the agriculture sector.<sup>9</sup>

6. **Weak food quality testing and monitoring system is impeding exports.** Meeting the food quality standards of destination markets is the fundamental requirement for increased export

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<sup>4</sup> A 34-year study (1980–2013) revealed that Nepal experienced the lowest agricultural productivity growth rate in South Asia (0.06%, compared with 1.05% in Bangladesh, 0.52% in India, and 0.38% in Pakistan). A. R. Anik, S. Rahman, and J.R. Sarker. 2017. *Agricultural Productivity Growth and the Role of Capital in South Asia (1980–2013)*. Basel: Multidisciplinary Digital Publishing Institute.

<sup>5</sup> World Bank. [Databank: World Development Indicators](#) (accessed 20 August 2019).

<sup>6</sup> Observations and lessons from recent ADB agriculture sector projects in Nepal: ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to Nepal for the Commercial Agriculture Development Project*. Manila (completed in 2014); ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to Nepal for High Mountain Agribusiness and Livelihood Improvement Project*. Manila (completed in 2018); and ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed {Modality(ies)} to Nepal for Raising Incomes of Small and Medium Farmers Project*. Manila (closing in 2019).

<sup>7</sup> International Food Policy Research Institute. 2017. [The Nepalese Seed Sector](#).

<sup>8</sup> Access to Seeds Index. 2019. [Country Profile for Nepal](#).

<sup>9</sup> The forthcoming Nepal country operations business plan, 2020–2022 includes the Rural Enterprise Financing Project (2020), the Targeted Value Chain Development Project (2021), the Mechanized Irrigation Innovation Project (2022), and the Rural Connectivity Improvement Program (2022).

of agricultural produce. Despite its membership in the World Trade Organization, Nepal has not been able to adopt all international standards on sanitary and phytosanitary measures because of inadequate resources.<sup>10</sup> The National Food and Feed Reference Laboratory at Kathmandu is the only laboratory in Nepal with international accreditation. These limitations hamper smooth movement of agricultural commodities between Nepal and India, which is a major trading partner. Exporters face significant delays and higher transaction costs because they are subject to multiple tests on both sides of the border. As a result, despite agriculture sector growth, imports among the top traded agricultural products are growing strongly (up 85% from NRs107 billion in FY2013 to NRs198 billion in FY2018), while exports have remained relatively flat, growing only 11% during the same period (from NRs20.5 billion in FY2013 to NRs22.7 billion in FY2018).<sup>11</sup>

**7. Food safety and quality is an emerging domestic issue.** Food safety is a concern in terms of consumer health, farmer safety (as users of hazardous inputs), and the potential for agricultural commercialization. Toxic residues in vegetable samples from Nepal exceeded the thresholds permitted by the European Union by a factor of 4 for eggplants, 17 for tomatoes, and 49 for chilis.<sup>12</sup> In view of the growing concern on food safety, the Government of Nepal is attempting to (i) establish national safety standards and a system to test and assess against Indian standards; (ii) introduce a surveillance system (including sanitary and phytosanitary standards, systemic inspection, and sampling); and (iii) regulate the distribution and use of hazardous inputs (through border control; registration and licensing of distributors; proper labeling; and education of farmers, distributors, and local regulators). The United States Agency for International Development (USAID) and World Bank-funded projects are helping build government capacity, but further reform of the laws and regulations regulating the production, sale and management of pesticides, and establishment of a monitoring system, particularly at the provincial level, are needed in Nepal.

**8. Transition from unitary to federal structure of government.** In 2015, a new constitution was promulgated to establish Nepal as a federal state with three levels of government—federal, provincial, and local—that are empowered to enact laws, prepare budgets, and mobilize their own resources. Mandates pertaining to agriculture and allied sectors have been largely delegated to the provincial and local governments, increasing their decision-making powers and responsibilities for effective delivery of public goods and services. However, there are overlaps in the functioning of agriculture sector authorities at the three levels of the government: (i) Ministry of Agriculture and Livestock Development (MOALD) at the federal level; (ii) Ministry of Land Management, Agriculture, and Cooperatives (MOLMAC) in the provinces; and (iii) local level.<sup>13</sup> The absence of clear procedures and standards associated with the devolution, and the lack of technical and human resource capacity of the nascent provincial and local governments present acute challenges for agriculture sector performance. Previously adopted national policies and the ADB-assisted Agricultural Development Strategy (ADS) need to be adapted to the subnational

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<sup>10</sup> As a member of the World Trade Organization, Nepal is bound to enforce sanitary and phytosanitary measures based on the standards, guidelines, and recommendations of the Codex Alimentarius Commission, International Animal Health Organization, and International Plant Protection Convention.

<sup>11</sup> In FY2018, India accounted for 57.4% of Nepal's exports and 65.3% of imports. Department of Customs. 2018. *Annual Foreign Trade Statistics, FY2074/75 (2017/18) and FY2069/70 (2012/13)—Data for HS chapters 01–24*. Kathmandu.

<sup>12</sup> G. Bhandari et al. 2019. Pesticide Residues in Nepalese Vegetables and Potential Health Risks. *Environmental Research*. 172, pp. 511–521.

<sup>13</sup> Local level means urban and rural municipalities.

context,<sup>14</sup> new regulations need to be formulated, and newly inaugurated offices require institution building and capacity development. The system of intergovernmental fiscal transfers from federal to subnational governments is still evolving.<sup>15</sup>

9. **Government's reform agenda.** The government's 14th periodic plan (FY2017–FY2019), 15th five-year plan (FY2020–FY2024), and Envisioning Nepal 2030 have highlighted modernization and commercialization of the agriculture sector as a national development priority in light of the need to reduce dependence on imports, and Nepal's aspiration to attain middle-income status by 2030.<sup>16</sup> Together with other development partners, ADB has supported the government in formulating the ADS, a strategic sector development vision through 2035, which serves as a basis for ongoing policy dialogues, roadmap development, and sector investments by development partners such as the USAID and the World Bank. The proposed PBL will support the policy reforms required for food safety (ADS output 4) and agricultural commercialization (ADS output 3 supported by ADS output 2) envisioned by the ADS.

## B. Policy Reform and ADB's Value Addition

10. **Policy reform.** A two-tranche, stand-alone PBL is proposed. The first tranche, to be released on loan effectiveness, includes fundamental policy framework reforms. There are nine first tranche policy actions which have all been achieved. The second tranche has 12 policy actions, which will further build on the first tranche actions to introduce regulations, strengthen institutional mechanisms, build capacity of key stakeholders, and strengthen food safety and quality systems targeted at both the domestic and export markets.<sup>18</sup> The following reform areas are envisaged:

- (i) **Reform Area 1: Food safety and quality monitoring systems improved.**<sup>19</sup> An important factor impeding food exports is the regulatory and institutional capacity within Nepal for sanitary and phytosanitary monitoring. The program will support the government in completing all prerequisites for International Organization for Standardization/International Electrotechnical Commission (ISO/IEC) 17025 international accreditation for at least one additional pesticide group testing unit at the National Food and Feed Reference Laboratory.<sup>20</sup> In parallel, and to provide

<sup>14</sup> ADB. 2013. *Technical Assistance to Nepal for the Preparation of the Agricultural Development Strategy*. Manila (TA 7762-NEP); and Government of Nepal, Ministry of Agriculture Development. 2014. *Agricultural Development Strategy 2015–2035*. Kathmandu.

<sup>15</sup> Subnational governments depend on transfers from the federal government. The federal government budget allocation for agriculture, forestry, and fisheries for FY2020 is NRs79.8 billion, equivalent to 5.2% of the total federal budget allocation; NRs12.1 billion (15.2%) is allocated to the provinces, and NRs1.7 billion (2.1%) to local governments.

<sup>16</sup> Government of Nepal, National Planning Commission. 2016. *An Approach Paper of Fourteenth Plan, FY2016/2017–FY2018/2019*. Kathmandu; Government of Nepal, National Planning Commission. 2018. *An Approach Paper of Fifteenth Plan, FY2019/2020–FY2023/2024*. Kathmandu; Government of Nepal, National Planning Commission 2016. *Envisioning Nepal 2030: Proceedings of the International Seminar*. Kathmandu; and ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

<sup>18</sup> A two-tranche program has the advantage of sequencing policy actions over time, allowing for deeper policy dialogue engagement and provision of capacity development support. Nepal's recent performance in implementing stand-alone, multitranche PBLs has been satisfactory, e.g., ADB. 2017. *Completion Report for Bangladesh, Bhutan, Nepal: South Asia Subregional Economic Cooperation (SASEC) Trade Facilitation Program*. Manila.

<sup>19</sup> Policy actions 1, 2, 3, 4, and 5 are tranche 1 conditionalities and policy actions 10, 11, 12, 13, 14, 15, and 16 are tranche 2 conditionalities related to reform area 1. Details are in the Policy Matrix (Appendix 4).

<sup>20</sup> ISO/IEC 17025 is the main ISO standard used by testing and calibration laboratories; most laboratories must hold accreditation to this standard to be deemed technically competent. At least one unit among pyrethroid and carbamate pesticide group testing units in the National Food and Feed Reference Laboratory will be considered for certification.

objective standards for pesticide residue levels for all fruits and vegetables, the program aims to notify the maximum pesticide residue levels (MRLs) for 20 fruits and vegetables after following due procedure, including inviting objections, if any, from trading partner countries on the World Trade Organization Notification Submission System. In livestock management, the program will support two vaccine production units in the National Vaccine Production Laboratory, and one molecular unit in the Central Animal and Poultry Disease Investigation Laboratory to meet the prerequisites for ISO/IEC 17025 accreditation. International accreditation of these production laboratories will enable export of vaccines for diseases such as Peste des Petits Ruminants, and Newcastle. Among the policy and regulatory interventions for safe domestic production, the new Pesticide Management Bill 2018 submitted to the Parliament for approval will replace the old Pesticide Management Act 1991—to further expand the definition of pesticides; regulate their production, sale, storage, and transportation; and ensure effective surveillance to discourage the overuse of harmful chemicals by farmers—which will be backed by a pesticide management regulation.<sup>21</sup> The program will develop test protocols and surveillance plans for two vegetables, and conduct pilot pesticide residue tests based on these protocols for demonstration. A national Food Safety Policy approved by the Cabinet for further submission to the Parliament, and a national Food Safety and Quality Bill submitted by MOALD for legal consent, will provide a comprehensive framework for food safety and quality to encourage the national food industry to align the food quality certification system with international food safety standards, and promote food exports.

- (ii) **Reform Area 2: Agricultural commercialization promoted.**<sup>22</sup> Models that encourage land pooling without ownership transfer can improve economies of scale and profitability, and thereby encourage agricultural commercialization. Improved market infrastructure is also essential, and arguably the most important requirement for commercialization. Taking note of these aspects, the Agribusiness Promotion Bill 2018, submitted to the Cabinet for approval, focuses on land management, contract farming, and agriculture marketing. On improving access to finance, the program takes note of a key lesson from ADB projects that farmers' lack of capacity to prepare business proposals for bank financing limits rural outreach of banks despite agriculture sector lending targets. To this effect, the program will support the Gandaki Province MOLMAC (Gandaki MOLMAC) in preparing sample business plans for at least two high-value commodities,<sup>23</sup> and posting these on its website for public access.<sup>24</sup> Farmers' access to expensive farm machinery can be improved by promoting custom hiring centers that can

<sup>21</sup> Synopses of the Proposed Amendments in Policies and Acts (accessible from the list of linked documents in Appendix 2).

<sup>22</sup> Policy actions 6, 7, and 8 are tranche 1 conditionalities and policy actions 17, 18, and 19 are tranche 2 conditionalities related to reform area 2. Details are in the Policy Matrix (Appendix 4).

<sup>23</sup> Gandaki Province has been selected based on its readiness to work on the ADB PBL, among the three provinces the government requested ADB to focus on (the others are provinces 1 and 5). The farming system in the Terai has a greater degree of mechanization than the hill region, but is largely cereal-based, while the hill region provides the potential for expanding production of high-value crops. Off-season vegetable, fruit, and coffee production has scope for further growth. Gandaki Province is a tourist hub and located close to Kathmandu, and thus a good area in which to seek to increase the demand for safer food supplies.

<sup>24</sup> Broadband penetration in Nepal is currently 64.5% (Nepal Telecommunications Authority. 2019. *MIS Report Jestha, 2076 [15 May 2019–15 June 2019]*. Kathmandu), and therefore posting on the website should be effective. It will be complemented with dissemination through ADS-Joint Sector Review platform, and farmer training under reform area 3.

lease farm equipment to farmers on an hourly or daily rental basis. The issues related to maintenance and servicing of the machinery can be addressed by developing clear guidelines and a business plan for custom hiring centers, and posting these on the Gandaki MOLMAC website to enable policy makers and entrepreneurs to address the sustainability risks. To protect crops against pests and invasive species, the Cabinet has endorsed for submission to Parliament the Plant Protection Act 2007 to clarify the institutional setup, including establishing a plant quarantine committee and federal government support for provincial governments in related activities. The program will provide further support in preparing the related regulation. Further, building on the proposed third amendment to the Seed Act 1988 endorsed by the Cabinet for submission to the Parliament, national standards will be devised for adoption by subnational governments to protect farmers and further encourage private sector participation in seed testing at the provincial and local levels.

- (iii) **Reform Area 3: Institutional capacity strengthened.**<sup>26</sup> The program will initiate actions to develop the capacity of nascent subnational governments to effectively carry out agriculture service delivery as a devolved function under the federal structure of the government. This will be done by providing orientation on the national ADS for all provincial governments and at least 50% of municipalities of Gandaki Province, including on the ADS' gender equality and social inclusion (GESI) strategy, so that subnational governments can initiate discussions to align the provincial and national strategies. To further promote adoption of modern agricultural practices and agribusiness, the program will help Gandaki Province adopt a training manual, prepare a socially and gender-inclusive provincial strategic investment plan for prioritized commodities, and integrate the investment plan with the province's medium-term expenditure framework. The GESI will be mainstreamed in Gandaki MOLMAC operations by developing the terms of reference and nominating a GESI focal person or unit to ensure that the province's plans and programs are gender sensitive and socially inclusive; and that women, indigenous people, and marginalized groups are represented in training activities.

11. **ADB's value addition.** ADB has been Nepal's key partner in the agriculture sector since the first sector engagement in 1971. Notably, as the lead coordinator of the multidonor initiative to design the ADS, 2015–2035 (footnote 14), ADB provided TA for the effort.<sup>27</sup> Simultaneously, ADB implemented three agricultural value chain development projects during the current country partnership strategy period (2013–2017, extended to 2019) to ensure that the strategy is well-grounded on lessons from field experience (footnote 6). The program will build on these initiatives by supporting the government to implement its policy commitments, leading to the investment projects currently planned under the ADB Nepal country operations business plan, 2020–2022 (footnote 9). This will be the first ADB agriculture sector PBL under the federal system of government, and provides timely support to the government in this transition by putting key frameworks in place.

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<sup>26</sup> Policy action 9 is a tranche 1 conditionality and policy actions 20 and 21 are tranche 2 conditionalities related to reform area 3. Details are in the Policy Matrix (Appendix 4).

<sup>27</sup> As an advocate of regional cooperation and integration, ADB is studying use of sanitary and phytosanitary measures as a trade facilitation instrument under the South Asia Subregional Economic Cooperation program (ADB. 2018. *Implementing Trade Facilitation Initiatives under the South Asia Subregional Economic Cooperation Program*. Manila).

12. **Development partner and/or donor coordination.** The ADB program team has closely coordinated with other development partners and donors in Nepal, including through the Development Partners' Food Security Group (a group of major development partners in the agriculture sector that meets monthly), and the ADS Joint Sector Review Committee (a joint development partners–government platform currently cochaired by USAID and MOALD, and the Government of Nepal, which was formed to facilitate coordination of development partner support for ADS implementation). Regular information sharing takes place through these platforms. The program complements efforts by other development partners involved in ADS implementation, including the European Union's \$40 million policy-based facility;<sup>28</sup> support to livestock (World Bank, Heifer International); seed industry (USAID, International Fund for Agricultural Development); and financial services (Department for International Development, United Kingdom).

### C. Impacts of the Reform

13. The program is aligned with Nepal's overarching development objective of accelerating profitable commercialization and competitiveness in the agriculture sector (para. 9). Improved compliance with international food safety standards and uptake of commercial agriculture will help achieve the government's development objectives, primarily through: (i) important policy and regulatory changes that will be supported in view of needed structural changes in the sector and devolution of powers to the subnational governments; (ii) international accreditation of key testing laboratories, which will address impediments to exports of agricultural products from Nepal, reduce transaction costs, and make exports more competitive; (iii) domestic consumption of imported and domestic agricultural produce, which will be better monitored for long-term beneficial impacts on human health; and (iv) institutional capacity strengthening in Gandaki Province for improved strategic and investment planning, budget linkages, and dissemination of agricultural best practices and business plans among farmers and general public.

### D. Development Financing Needs and Budget Support

14. The transition from a unitary to a federal structure has increased fiscal stress on the federal government. Nepal generally had a fiscal surplus until FY2016, but now faces a rising deficit—from 3.2% of GDP in FY2017 to 7.3% of GDP in FY2019—largely because of increasing expenditures on grants, land, buildings, and civil works.<sup>29</sup> The FY2020 budget estimates a deficit of \$2.9 billion, or 8.4% of GDP. The estimated total financing requirement is \$4.4 billion in FY2020, of which \$2.6 billion will be financed from external borrowings, mostly through official development assistance and EXIM Bank. However, the International Monetary Fund projects a ratio of fiscal deficit to GDP of 4.3% in FY2020 and 3.8% in FY2021.<sup>30</sup> The government will not have fiscal headroom to incur additional expenses on reforms proposed under the program.

15. Based on the development financing requirements of the program, the Government of Nepal has requested a concessional loan of \$50 million equivalent from ADB's ordinary capital resources to help finance the program. The loan will have a 24-year term, including a grace period

<sup>28</sup> The European Union program has a mix of process and outcome level indicators. One of the conditions relates to the drafting and submission of legislation on agribusiness promotion, agriculture markets, and land management.

<sup>29</sup> ADB. 2019. *Macroeconomic Update: Nepal*. Vol. 7 (No.1). Manila; and Government of Nepal, Ministry of Finance. 2019. [Budget Speech Fiscal Year 2019/20](#). Speech delivered to Joint Assembly of Federal Parliament by the Honorable Finance Minister Dr. Yuba Raj Khatiwada Wednesday, May 29, 2019. The revised fiscal deficit for FY2019 is estimated as 5.1% of GDP based on preliminary data available from the Financial Comptroller General Office (ADB staff estimates, September 2019)

<sup>30</sup> International Monetary Fund Assessment Letter (accessible from the list of linked documents in Appendix 2).

of 8 years; an interest rate of 1.0% per year during the grace period and 1.5% per year thereafter; and such other terms and conditions set forth in the draft loan agreement. The funds will be released in two tranches—\$25 million on loan effectiveness and \$25 million about 18 months later—once the government has complied with the policy actions.

## E. Implementation Arrangements

16. The executing agency will be the Ministry of Finance (MOF), and the implementing agencies will be MOALD and Gandaki MOLMAC. The high-level committee (HLC), constituted earlier by MOALD to support ADB program processing, will be responsible for overall supervision and coordination. The HLC is chaired by the MOALD secretary and has representation from federal MOF, National Planning Commission Secretariat, and Gandaki MOLMAC. The existing PBL Working Committee at MOALD, which includes the same members who have been coordinating with ADB in PBL design, will coordinate program implementation. A PBL working committee will also be formed at Gandaki MOLMAC. Based on the feedback from the working committee and ADB, the HLC, if necessary, will amend and revise its work programs to ensure the timely and effective implementation of the program.

17. ADB will undertake periodic review missions to (i) confirm progress and fulfillment of policy actions for tranche release; (ii) monitor continued applicability of the assumptions that might impact program success, as well as specified risks and their mitigating measures; and (iii) advise on actions to maintain effective implementation within the program period.

18. Procurement, advance contracting, and retroactive financing are not expected.<sup>31</sup> The program will be implemented over 2 years. The proceeds of the PBL will be withdrawn in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

## III. ATTACHED TECHNICAL ASSISTANCE

19. The attached transaction TA will assist the implementing agencies to comply with the program's second tranche policy conditions.<sup>32</sup> The TA is estimated to cost \$600,000 of which \$500,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 6). The government will provide counterpart support in the form of counterpart staff and office accommodation.

20. The implementation arrangements for the TA will be aligned with those of the PBL. ADB will administer the TA. The executing agency will be the MOALD. The PBL working committees at MOALD and Gandaki MOLMAC will implement the TA components, and the HLC will be responsible for overall supervision and coordination. A total of 4 person-months of international and 35.5 person-months of national consultancy services will be required intermittently. The consultants will be engaged through a consulting firm using the quality- and cost-based selection method with a quality–cost ratio of 90:10. The TA is estimated to begin in March 2020 and will be implemented over 15 months (until June 2021). All consultants will be recruited in line with the ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time). All disbursements under the TA will be made in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

<sup>31</sup> List of Ineligible Items (accessible from the list of linked documents in Appendix 2).

<sup>32</sup> Attached Technical Assistance Report (accessible from the list of linked documents in Appendix 2).

## IV. DUE DILIGENCE

### A. Technical

21. Several outputs of the program have technical components at their core. Completion of prerequisites in various laboratory units for ISO/IEC accreditation; notification of MRLs for selected vegetables; preparation of strategic plans, investment plans, and business plans; development of pesticide protocols; surveillance plan; and conducting surveillance will require sound technical knowledge. Capacity-building support under the program will assist the relevant government departments and agencies to better manage these technical operations.

### B. Governance

22. A governance risk assessment was conducted in line with the implementation guidelines of ADB's Second Governance and Anticorruption Action Plan.<sup>33</sup> ADB's Anticorruption Policy (1998, as amended to date) was also explained to and discussed with MOF. This assessment was complemented by a review of areas of possible governance risks that can affect program implementation. These include risks related to (i) political support for and ownership of the government, especially for sensitive reforms; and (ii) institutional dimensions of the program (e.g., weak capacity in the relevant institutions, weak coordination between the federal and provincial governments, and transfer of key personnel responsible for program implementation). These risks will be mitigated through ADB's continued engagement with the government along with TA support and implementation monitoring by ADB.

### C. Poverty and Social

23. The program aims to reduce poverty by supporting farmers to adopt modern farming practices and increase productivity and incomes. The program will showcase how subnational governments can deliver more effective services to the agriculture sector. Seed is the most important input in farming. Improved regulations for seed production and testing, including a provision for farmer compensation in case of poor seed quality, can minimize the income risk to farmers. Clarity on minimum standards for seed-testing laboratories can improve credibility and availability of seeds in the local market. Availability of sample business plans will make it easier for farmers to access bank finance. Sustainable and functional custom hiring centers will improve farmers' access to farm machinery, thus improving their productivity. These measures will provide the framework for farmers' transition from subsistence farming to commercial agriculture to improve their economic condition. Improved systems for food safety and quality monitoring will encourage sustainable agricultural practices and have a beneficial impact on human health.

24. The program is categorized *effective gender mainstreaming*. The program is socially inclusive and targets gender representation and inclusion of poor and vulnerable groups through farmer training and sensitization training for the Gandaki MOLMAC. Specifically, the policy reforms will strengthen and institutionalize GESI in Gandaki Province by providing (i) orientation on socially and gender-inclusive ADS with select local levels (municipalities), (ii) a socially and gender-inclusive strategic investment plan for at least one prioritized commodity in Gandaki Province, (iii) equal opportunity for women and men farmers in agribusiness training, and (iv) designation of a GESI focal person or unit in Gandaki MOLMAC. This focal will monitor and ensure that GESI-focused actions are well integrated into plans and programs.

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<sup>33</sup> ADB. 2006. *Second Governance and Anticorruption Plan*. Manila.

#### **D. Safeguards**

25. The program is classified as category *C* for environment and involuntary resettlement and is category *B* for indigenous peoples. The program's policy actions will not generate any environmental or involuntary resettlement impacts. Due diligence has established that the PBL will not have negative impacts on indigenous peoples, and anticipates the generation of positive impacts for indigenous peoples who elect to participate in the Gandaki MOLMAC capacity-building plan.<sup>34</sup> Measures to ensure that indigenous peoples benefit in a culturally appropriate manner have been covenanted and included in the project design and matrix of potential environmental and social impacts of policy actions. Several of the program's policy actions reflect the government's commitment to combating the impact of climate change on agriculture. Agriculture is directly impacted by climate variability, and the use of quality seeds can help in managing the risks. Increases in the population of pests and invasive species, and occurrence of plant diseases, are potential hazards. Legislative reforms in pesticide management and plant protection supported under the program are aimed toward effective control in the context of a changing environment.

26. **Summary of risk assessment and risk management plan.** There are no high or substantial risks to this program. Risks and mitigating measures are described in detail in the risk assessment and risk management plan.<sup>35</sup>

#### **V. ASSURANCES**

27. The government has assured ADB that implementation of the program shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan agreement. No disbursement shall be made unless ADB is satisfied that the government has completed the policy actions specified in the policy matrix relating to the program.

#### **VI. RECOMMENDATION**

28. I am satisfied that the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$50,000,000 to Nepal for the Food Safety and Agriculture Commercialization Program, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 1.0% per year during the grace period and 1.5% per year thereafter; for a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao  
President

7 October 2019

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<sup>34</sup> Matrix of Potential Environmental and Social Impacts and Measures (accessible from the list of linked documents in Appendix 2).

<sup>35</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

## DESIGN AND MONITORING FRAMEWORK

<b>Country's Overarching Development Objectives</b>			
(i) Profitable commercialization and competitiveness accelerated in the agriculture sector (Agricultural Development Strategy, 2015–2035) <sup>a</sup>			
(ii) Agricultural trade balance improved (Agricultural Development Strategy, 2015–2035) <sup>a</sup>			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Risks</b>
<b>Effect of the Reform</b> Nepal's food safety compliance and uptake for agricultural commercialization improved	By 2022: a. At least one laboratory unit obtained ISO/IEC 17025 accreditation (2019 baseline: 0) b. Pesticide residue surveillance for MRL compliance implemented in at least two provinces for at least two fruits and/or vegetables (2019 baseline: Not applicable) c. Gandaki MOLMAC's budget allocation in FY2022 for two prioritized commodities increased by at least 10% from the current level of allocation (2019 baseline: NRe162 million)	a. MOALD report on laboratory accreditation b. DFTQC annual surveillance report c. Gandaki province's budget document	Deterioration in macroeconomic conditions causes the government to shift resources away from sustaining the reforms.
<b>Reform Areas</b> 1. Food safety and quality monitoring systems improved	<b>Policy Actions</b> <b>Pesticide management and control</b> By 2021: 1a. A draft pesticide management regulation approved by MOALD for submission to MLJPA for legal consent (2019 baseline: Draft regulation not submitted) 1b. MRL of pesticides in at least 10 fruits, vegetables, and food items published in MOALD's official gazette; and a notification submitted by MOALD to the WTO Notification Submission System for MRL of pesticides in at least 10 additional fruits, vegetables, and food items (2019 baseline: Not notified) 1c. Pesticide residue test protocol and surveillance plan for selected two vegetables developed and pilot-tested (2019 baseline: Not developed) <b>Laboratory upgrading for international accreditation</b> By 2021: 1d. A plan for upgrading existing food safety laboratories under DFTQC developed and approved by MOALD (2019 baseline: None)	1a–e. MOALD report	Inter-departmental transfers of key officials disrupt business continuity and delay compliance with policy actions. Objection by other countries against the MRL notified by Nepal on the WTO notification system delays approval and official notification by the government.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	1e. All prerequisites for ISO/IEC 17025 certification for four laboratory units completed in preparation for international accreditation (2019 baseline: Prerequisites not complied with) <sup>b</sup>		
2. Agriculture commercialization promoted	<p><b>Agribusiness promotion</b></p> <p>By 2019:</p> <p>2a. Agribusiness Promotion Bill 2075 (2018)—with provisions on participation and benefits of marginalized and women farmers—endorsed by MOALD and submitted to Cabinet<sup>c</sup> (2018 baseline: Not endorsed)</p> <p>By 2021:</p> <p>2b. Sample business plans for at least two high-value commodities approved by Gandaki MOLMAC and posted on its website for public access (2019 baseline: Not applicable)<sup>d</sup></p> <p><b>Protecting farmers' interest</b></p> <p>By 2019:</p> <p>2c. A draft amendment to Seed Act 2045 (1988) endorsed by Cabinet to MOALD for submission to Parliament (2018 baseline: Not endorsed)</p> <p>By 2021:</p> <p>2d. Minimum standards for establishing seed-testing laboratories of different categories approved by the National Seed Board (2019 baseline: Standards not updated for all categories)</p>	<p>2a. MOALD submission to the Cabinet</p> <p>2b. Sample business plan with website links</p> <p>2c. Cabinet's endorsement</p> <p>2d. MOALD report</p>	
3. Institutional capacity strengthened	<p><b>Integrating strategic and investment planning with program budgeting</b></p> <p>By 2021:</p> <p>3a. All provincial government MOLMACs and at least 50% of local levels<sup>e</sup> in Gandaki Province oriented on the Agricultural Development Strategy, including its GESI strategy (2018 baseline: 0)</p>	3a. MOALD's compliance report	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>3b. Socially and gender-inclusive provincial strategic investment plan for at least one prioritized commodity aligned with provincial medium-term expenditure framework and submitted by Gandaki MOLMAC to provincial Cabinet for approval (2019 baseline: Not applicable)</p> <p><b>Improving capacity in agriculture best practices, and GESI</b></p> <p>3c. Gandaki MOLMAC designated a focal person or a unit with clearly defined job description to oversee mainstreaming of GESI practices in Gandaki MOLMAC operations (2019 baseline: Not applicable)</p> <p>3d. Training manual for promoting improved agricultural practices and agribusiness development published by Gandaki MOLMAC (2019 baseline: Not applicable)</p> <p>3e. At least 150 farmers trained (including indigenous peoples, other marginalized groups, and at least 50% women) on improved agricultural practices and agribusiness development, of which at least 80% reported increased knowledge (2019 baseline: 0)</p>	<p>3b–c. MOLMAC’s compliance report</p> <p>3d. Copy of training manual, MOLMAC endorsement, and training report</p> <p>3e. Training report; pre- and post-training tests</p>	

#### Budget Support

Asian Development Bank: \$50 million (concessional ordinary capital resources loan)

Technical assistance: \$500,000 Technical Assistance Special Fund (TASF 6)

DFTQC = Department of Food Technology and Quality Control; GESI = gender equality and social inclusion; ISO/IEC = International Organization for Standardization/International Electrotechnical Commission; MLJPA = Ministry of Law, Justice, and Parliamentary Affairs; MOALD = Ministry of Agricultural and Livestock Development; MOLMAC = Ministry of Land Management, Agriculture, and Cooperatives; MRL = maximum residue level; WTO = World Trade Organization.

Note:

- <sup>a</sup> Government of Nepal, Ministry of Agricultural Development. 2014. *Agricultural Development Strategy, 2015–2035*. Kathmandu.
- <sup>b</sup> These include (i) pyrethroid or carbamate group pesticides testing in the National Food and Feed Reference Laboratory, (ii) molecular unit in the Central Animal and Poultry Disease Investigation Laboratory, (iii) Newcastle disease vaccine production unit in the National Vaccine Production Laboratory, and (iv) Peste Des Petits Ruminants vaccine production unit in the National Vaccine Production Laboratory.
- <sup>c</sup> As defined in the Agribusiness Promotion Bill, “marginalized” refers to women, the disabled, and people living in remote areas. For the purpose of this program, Dalits, Muslims, and other disadvantaged groups are also eligible.
- <sup>d</sup> Business plans comprise technical, financial, branding, and marketing aspects of agribusiness. Custom hiring service centers have been promoted by the government to provide services related to leasing of farm equipment by farmers. These centers provide equipment to farmers, with or without operators, on an hourly or daily rental bases.
- <sup>e</sup> Local levels mean urban and rural municipalities.

**Contribution to ADB Results Framework:** To be determined.

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=48218-010-3>

1. Loan Agreement
2. Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items
10. Attached Technical Assistance Report
11. Potential Safeguards Impacts of Policy Programs
12. Safeguards Assessment and Findings

### **Supplementary Documents**

13. Agricultural Development Functions and Institutional Arrangements in Federal Nepal
14. Synopses of the Proposed Amendments in Policies and Acts

## DEVELOPMENT POLICY LETTER



### Government of Nepal MINISTRY OF FINANCE



SINGHADURBAR  
KATHMANDU, NEPAL

Ref No: MoF/2018.19/ 600

12 September 2019

Mr. Takehiko Nakao  
President  
Asian Development Bank  
6 ADB Avenue, Mandaluyong City  
Metro Manila, Philippines



Dear Mr. President:

**Subject: Letter of Development Policy for Food Safety and  
Agriculture Commercialization Program in Nepal**

Please allow me to thank you, on behalf of the Government of Nepal, for the high commitment and continued support of the Asian Development Bank (ADB) towards our vision of raising the living standards of the Nepali people by achieving sustainable economic growth. With the aim of graduating from the Least Developed Country Status and to emerge as an inclusive, equitable, and prosperous middle-income country by 2030, Nepal is fully committed to the global development agenda of the Sustainable Development Goals. We value the long-term partnership with ADB, whose mission to help reduce poverty has helped Nepal attain development outcomes in many areas, including the agriculture sector, which is the largest sector in Nepal in terms of providing livelihood and offering jobs. ADB has been an important catalyst in advancing agriculture development and growth.

Nepal has a natural comparative advantage in agriculture with diverse agro-climatic zones including fertile plains, upland hills, and mountainous regions. These allow tropical to temperate crops to be produced and enable counter-seasonal production which, if planned appropriately, can provide Nepal with a unique advantage of linking with regional and global agricultural value chains, and benefitting from the strong growth in neighboring countries. However, the rural economy suffers from binding constraints— inadequate infrastructure, poor quality of agriculture inputs, and inadequate technology resulting in low productivity in general. The Government of Nepal recognizes the fact that addressing these constraints can have a substantial impact on living standards of the rural population, particularly women, as large number of working women are employed in agriculture. Further, as most of the poor live in rural areas, improving rural economy through agriculture development will contribute to Nepal's efforts to eradicate poverty.



## Government of Nepal MINISTRY OF FINANCE



SINGHADURBAR  
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This would require an integrated approach in the areas of policy reforms, institutional capacity development, and public service delivery.

The proposed *Food Safety and Agriculture Commercialization Program* has been prepared with the assistance of ADB to support the integrated approach in agriculture development in Nepal. The program also aligns well with the ADB-assisted Agriculture Development Strategy (ADS)—a 20-year strategic plan with four specific outcomes: (i) improved governance through credible policy reforms, (ii) higher productivity through improved quality and availability of agricultural inputs and services, (iii) profitable commercialization through agribusiness promotion, and (iv) increased competitiveness through increase in food safety and security, among others. More specifically, ADB's support will be utilized to initiate key reforms in the following broad areas:

- (i) **Reform Area 1: Improving food safety and quality monitoring systems.** The program will support the government to (a) complete all prerequisites for ISO/IEC 17025 international accreditation for at least one additional pesticide group testing unit at the National Food and Feed Reference Laboratory; (b) prepare objective standards for Maximum (Pesticide) Residue Levels (MRLs) by targeting notification of MRLs for 20 fruits and vegetables, including inviting objections, if any, from trading partner countries on the World Trade Organization Notification Submission System; (c) replace the old Pesticide Management Act 1991 with a new Pesticide Management Bill 2018 for effective regulation of pesticides use; (d) develop test protocols and surveillance plans for two vegetables, and conduct pilot pesticide residue tests based on these protocols; (e) prepare national Food Safety Policy and national Food Safety and Quality Bill to encourage national food industry and exports; and (f) institutionally strengthen two production units in the National Vaccine Production Laboratory and one molecular unit in the Central Animal and Poultry Disease Investigation Laboratory in meeting the prerequisites for ISO/IEC 17025 accreditation.
- (ii) **Reform Area 2: Promoting agriculture commercialization.** The program will support the government in (a) drafting an Agribusiness Promotion Bill with the focus on land management, contract farming, and agriculture marketing; (b) preparing sample business plans for at least two high-value commodities to enhance farmers' capacity to prepare bankable business proposals for bank financing; (c) enhancing farmers' access to expensive farm machinery by encouraging leasing models such as custom hiring centers, and preparing clear operational guidelines and business plan for these centers; (d) the amendment of the Seed Act 1988 for improved access to quality seeds, and private sector



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investment in seed production; and (e) the amendment of the Plant Protection Act 2007 and its related regulation for better clarity in institutional arrangement under the federal structure.

- (iii) **Reform Area 3: Strengthening institutional capacity.** With Nepal's recent transition to federalism, the mandates pertaining to the agriculture and allied sectors have been largely delegated to the provincial and local governments, increasing their decision-making powers and responsibilities for public service delivery. The program will initiate actions to develop institutional capacity of nascent subnational governments by (a) orienting all provincial governments and at least 50% of municipalities of Gandaki province on the national ADS, including its gender equality and social inclusion (GESI) strategy, with an aim to help align provincial agriculture development plans and programs with the ADS; (b) supporting the Gandaki province in developing a GESI-sensitive strategic investment plan for a prioritized commodity and integrating the plan with the province's medium-term expenditure framework; (c) mainstreaming GESI in the Ministry of Land Management, Agriculture, and Cooperatives (MOLMAC) of the Gandaki province by nominating a GESI focal person or unit, publishing a training manual for promotion of improved agricultural practices and agribusiness development, and ensuring that women and indigenous people are represented in training activities.

We recognize the challenges and risks entailed in this proposed program and remain committed to its implementation. We also confirm that the policy actions that accompany this program are reflective of and fully in consonance with the reform agenda of the Government. The piggybacked technical assistance will make an important contribution during the implementation of the program in overcoming the capacity constraints of the implementing agencies.

We would like to thank ADB for working closely with the Government in developing this Program. We would appreciate your favorable consideration of the proposed program loan and look forward to working together to achieve the targeted milestones of reforms.

Yours sincerely,

(Dr. Yuba Raj Khatiwada)  
 Minister of Finance

## POLICY MATRIX

	Tranche 1 (November 2019)		Tranche 2 (18 months from Tranche 1)
<b>Reform Area 1: Food Safety and Quality Monitoring Systems Improved</b>			
1	<p>Cabinet shall have endorsed the draft Pesticide Management Bill 2075 (2018) to MOALD for submission to the Parliament to regulate production, sales, storage, transportation; and to discourage the overuse of harmful chemicals.</p> <p><b>(Document required: MOALD to provide copy of Cabinet's endorsement for submission of the draft Bill to the Parliament)</b></p>	10	<p>MOALD shall have endorsed a draft Pesticide Management Regulation and submitted to the Ministry of Law, Justice, and Parliamentary Affairs for consent.</p> <p><b>(Document required: MOALD to provide a copy of its letter of submission of draft Pesticide Management Regulation to the Ministry of Law, Justice, and Parliamentary Affairs)</b></p>
2	<p>MOALD shall have submitted a notification on the <i>World Trade Organization Notification Submission System</i> for the Maximum Residue Limit (MRL) of pesticides in at least ten fruits, vegetables, and food items for comments and suggestions by trading partner countries.</p> <p><b>(Document required: MOALD to provide a copy of the submitted notification)</b></p>	11	<p>MOALD shall have (i) issued and published in the official gazette the Maximum Residue Limit (MRL) of pesticides in at least ten fruits, vegetables, and food items; and (ii) submitted a notification on the <i>World Trade Organization Notification Submission System</i> for the MRL of pesticides for at least ten additional fruits, vegetables, and food items for comments and suggestions by trading partner countries.</p> <p><b>(Document required: MOALD to provide (i) a copy of the gazette publication, and (ii) the submitted notification)</b></p>
3	<p>Cabinet shall have approved the National Food Safety Policy 2076 (2019) incorporating a comprehensive framework for food safety and quality, developing national food industry, and promoting food exports.</p> <p><b>(Document required: MOALD to provide a copy of Cabinet approval letter)</b></p>	12	<p>MOALD shall have (i) developed pesticide residue test protocol and surveillance plan for selected two vegetables; and (ii) conducted a pilot study of pesticide residue test in the selected two vegetables.</p> <p><b>(Document required: MOALD to provide a compliance report showing that a-b have been complied with)</b></p>
4	<p>MOALD shall have prepared a draft Food Safety and Quality Bill and submitted to the Ministry of Law, Justice, and Parliamentary Affairs for review, including provisions to align the certification system with international food safety standards.</p> <p><b>(Document required: MOALD to submit copy of letter on submission of draft Food Safety and Quality Bill to the Ministry of Law, Justice, and Parliamentary Affairs)</b></p>	13	<p>MOALD shall have (i) prepared a plan for upgrading existing food safety laboratories under the Department of Food Technology and Quality Control (DFTQC), and (ii) completed all prerequisites for ISO/IEC 17025 certification for either pyrethroid or carbamate group pesticides testing in the National Food and Feed Reference Laboratory in preparation for international accreditation.</p> <p><b>(Document required: MOALD to submit (i) the approved plan, and (ii) a compliance report showing that such prerequisites for ISO 17025 certification have been met)</b></p>

	<b>Tranche 1 (November 2019)</b>		<b>Tranche 2 (18 months from Tranche 1)</b>
5	MOALD shall have approved a roadmap for international accreditation of (a) the Central Animal and Poultry Disease Investigation Laboratory, (b) National Avian Disease Investigation Laboratory, and (c) Veterinary Standards and Drug Administration Laboratory.  <b>(Document required: MOALD to provide a copy of the approved roadmap)</b>	14	MOALD shall have completed all prerequisites for ISO/IEC 17025 certification for molecular unit in the Central Animal and Poultry Disease Investigation Laboratory, in preparation for international accreditation.  <b>(Document required: MOALD to submit a compliance report showing that such prerequisites have been met)</b>
		15	MOALD shall have completed all prerequisites for ISO/IEC 17025 certification for new castle disease vaccine production unit in the National Vaccine Production Laboratory in preparation for international accreditation.  <b>(Document required: MOALD to submit a compliance report, showing that such prerequisites have been met)</b>
		16	MOALD shall have completed all pre-requisites for ISO/IEC 17025 certification for PPR vaccine production unit in the National Vaccine Production Laboratory, in preparation for international accreditation.  <b>(Document required: MOALD to submit a compliance report showing that such prerequisites have been met)</b>
<b>Reform Area 2: Agriculture Commercialization Promoted</b>			
6	MOALD shall have submitted a draft of the Agribusiness Promotion Bill 2075 to the Cabinet to encourage contract farming and agriculture marketing, with provisions on the participation and benefits of marginalized and women farmers.  <b>(Document required: MOALD to provide a copy of the letter of submission of the draft bill to the Cabinet)</b>	17	GANDAKI MOLMAC shall have approved and posted on its website operational guidelines for custom hiring of agricultural machinery, including after-sales service and procedural requirements; and approved sample business plans comprising technical, financial, branding, and marketing aspects for (a) custom hiring of agricultural machinery, and (b) at least two high-value commodities.  <b>(Document required: Gandaki MOLMAC to provide a copy of the approved business plans and guidelines along with the website link)</b>

	<b>Tranche 1 (November 2019)</b>		<b>Tranche 2 (18 months from Tranche 1)</b>
7	<p>Cabinet shall have endorsed a draft amendment to the Seed Act 2045 (1988) to MOALD for submission to Parliament to ensure farmer protection and to encourage private sector participation in seed business.</p> <p><b>(Document required: MOALD to provide a copy of the Cabinet's endorsement for submission of the draft amendment to the Parliament)</b></p>	18	<p>National Seed Board shall have approved minimum standards for establishing seed testing laboratories of different categories.</p> <p><b>(Document required: MOALD to provide a copy of the approved minimum standards)</b></p>
8	<p>Cabinet shall have endorsed the draft amendment to Plant Protection Act 2064 (2007) to MOALD for submission to the Parliament to regulate and protect crops against invasive species and pests.</p> <p><b>(Document required: MOALD to provide a copy of the Cabinet's endorsement for submission of the draft amendment to the Parliament)</b></p>	19	<p>MOALD shall have prepared a draft Plant Protection Regulation and submitted to the Ministry of Law, Justice, and Parliamentary Affairs for consent.</p> <p><b>(Document required: MOALD to submit a copy of the letter on its submission of the draft Plant Protection Regulation to the Ministry of Law, Justice, and Parliamentary Affairs)</b></p>
<b>Reform Area 3: Institutional Capacity Strengthened</b>			
9	<p>MOALD shall have conducted Agricultural Development Strategy (ADS) orientation workshops in all provincial government MOLMACs to align subnational level agriculture strategies and plans to the national ADS.</p> <p><b>(Document required: MOALD to submit a report on the dissemination of ADS among provincial governments)</b></p>	20	<p>Gandaki MOLMAC shall have formulated and submitted to provincial Cabinet, gender-and socially inclusive provincial strategic investment plan for at least one prioritized commodity and aligned it with the provincial medium-term expenditure framework (MTEF).</p> <p><b>(Document required: Gandaki MOLMAC to submit a copy of the provincial strategic investment plans and MTEF submitted to the provincial Cabinet)</b></p>

	<b>Tranche 1 (November 2019)</b>		<b>Tranche 2 (18 months from Tranche 1)</b>
		21	<p>To strengthen institutional capacity to implement gender-sensitive and socially inclusive agri-business reforms:</p> <ul style="list-style-type: none"> <li>(a) Gandaki MOLMAC shall have designated a focal person or unit with clearly defined job description to oversee mainstreaming of gender equality and social inclusion practices in Gandaki MOLMAC operations,</li> <li>(b) Gandaki MOLMAC shall have published a training manual for promotion of improved agricultural practices and agribusiness development, and delivered training to at least 150 farmers (including indigenous peoples, other marginalized groups, and at least 50% women) ; and</li> <li>(c) MOALD shall have conducted ADS orientation workshops for at least 50% of local levels of Gandaki province, including orientation on gender equality and social inclusion strategy of the ADS</li> </ul> <p><b>(Documents required: Gandaki MOLMAC to submit (a) a copy of the decision and/or assignment letter and terms of reference of the GESI focal person or unit, and (b) its letter of approval for the training manual and a compliance report on the training conducted showing gender and social disaggregated data; and MOALD to submit a report on the orientation of ADS among the local levels (municipalities and rural municipalities) of Gandaki Province)</b></p>