

# FUNCTIONAL MECHANISMS OF THE PROVINCIAL GOVERNMENT (KARNALI, LUMBINI, AND MADHESH)

*The Cases of Industry, Forestry and Agribusiness*

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Mohd Ayub | Punam Limbu



**Democracy Resource Center Nepal  
Lalitpur**

# **Functional Mechanisms of the Provincial Government (Karnali, Lumbini, and Madhesh): The Cases of Industry, Forestry and Agribusiness**

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Published Year 2025

## ***Publisher***

Democracy Resource Center Nepal (DRCN)

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[www.democracyresource.org](http://www.democracyresource.org)

DRCN Periodic Publication - 27

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Layout design: Kishor Pradhan

This research was conducted with funding from UKAID and technical support from the Asia Foundation. The views expressed in this report do not necessarily reflect those of the UK Government or the Asia Foundation.

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## ACKNOWLEDGMENTS

Democracy Resource Center Nepal (DRCN) extends its sincere appreciation to all the provincial-level stakeholders in Karnali, Lumbini, and Madhesh provinces whose active participation and invaluable insights greatly enriched this study. We are deeply grateful to the provincial cabinet members, government officials, and bureaucrats overseeing industry, forestry, and agribusiness for their indispensable support, without which this research would not have been possible. Our heartfelt thanks also go to the elected representatives, thematic experts, and members of provincial planning commissions for sharing critical data and perspectives that strengthened the study. Furthermore, we acknowledge the meaningful contributions of all participants in stakeholder consultations across the three provinces. Their thoughtful comments and suggestions were instrumental in validating the research findings.

DRCN is especially grateful to The Asia Foundation for facilitating financial and technical support from the beginning to the completion of this research. Ms. Sumina Rai Karki and Mr. Suraj Ray of The Asia Foundation facilitated in multiple knowledge sharing sessions and provided their valuable feedback throughout the study. Local resource persons Mr. Dipak Jung Shahi (Karnali Province), Mr. Bhawani Pandey (Lumbini Province) and Mr. Sumit Mishra (Madhesh Province) assisted a lot during field work. We sincerely appreciate all of them.

We are also grateful to Sudip Pokharel for reading the draft and offering thoughtful suggestions. Finally, the entire DRCN team deserves appreciation for their support in finalizing this report.

Democracy Resource Center Nepal (DRCN)  
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## LIST OF ABBREVIATIONS

ADO	:	Agriculture Development Office
CDO	:	Chief District Officer
CM	:	Chief Minister
CSI	:	Cottage and Small Industries
CSIO	:	Cottage and Small Industries Office
DFO	:	Divisional Forest Office
DG	:	Director General
DRCN	:	Democracy Resource Center Nepal
EV	:	Electric Vehicle
FECOFUN	:	Federation of Community Forest Users Nepal
FNCCI	:	Federation of Nepalese Chamber of Commerce and Industries
FRTC	:	Forest Research Training Institute
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
GIS	:	Geographic Information System
GPS	:	Global Positioning System
MoLMAC	:	Ministry of Land Management, Agriculture, and Cooperatives
NPR	:	Nepali Rupees
NTFP	:	Non-Timber Forest Products
OAG	:	Office of the Auditor General
OCIP	:	Office of Industry and Consumer Protection
PEA	:	Political Economic Analysis
PPC	:	Provincial Planning Commission

SCCI : Surkhet Chamber of Commerce and Industries  
SEZ : Special Economic Zones  
VAT : Value Added Tax

## 1. BACKGROUND

Democracy Resource Center Nepal (DRCN) and The Asia Foundation reached an agreement to conduct an exploratory study, ‘Identifying the Functional Mechanisms of the Provincial Government (Karnali, Lumbini, and Madhesh): The Cases of Industry, Forestry and agribusiness’. The study aims to analyze the role and functions of provincial governments in three key sectors – industry, forestry, and agribusiness – to assess the constitutional and legal frameworks of these sectors, to analyze their focus areas and priorities; and document ongoing practices and learnings in the Karnali, Lumbini, and Madhesh provinces, with a goal of identifying entry points for policy reforms and providing programmatic recommendations for the provinces.

## 2. CONTEXT

Following the adoption of a federal system of governance in 2015, the Constitution of Nepal restructured the erstwhile centralized system of governance and devolved power and authority to provinces and local levels. Two rounds of elections, in 2017 and 2022, have pushed the institutionalization of the three-tier federal system, bringing power closer to the people and fostering inclusive governance. Despite the federal government's continued reluctance in devolving power, along with its tendency to centralize authority and undermine provincial mandates, legitimacy, and effectiveness, provinces have made significant progress. Over the past eight years, provinces have created and institutionalized ministries and their subordinate structures, established institutions, and managed resources. Provincial governments and their subordinate structures are ideally situated to ensure effective coordination between the federal and the local levels, and to bridge gaps between them. Provincial governments have received mandates in key sectors such as industry, forestry and agribusiness among others, which are vital for inclusive social and economic development.

### 2.1. Objective

This study aims to explore how provincial governments have progressed over the past eight years in implementing their constitutional mandates, creating policy and legal frameworks, managing financial resources, and setting priorities and driving sectoral growth in the Karnali, Lumbini, and Madhesh provinces. The objective of this research is to:

- i) To identify and analyze the constitutionally-assigned sectoral roles and functions of provincial governments in industry, forestry and agribusiness;
- ii) To assess the practices against those constitutionally-assigned roles and functions;
- iii) To document key emerging practices (formal and informal) and learnings from their experiences in these sectors;
- iv) To recommend potential areas of opportunities and entry points for reforms and engagements.

## **2.2. Rationale and Scope of Work**

The scope of this study is to identify the functional mechanisms – the set of laws, rules and behaviors that stakeholders bring into action while engaging with a government structure or organization – of the provincial governments in Karnali, Lumbini, and Madhesh, from the lenses of industry, agribusiness, and forestry sectors.

The literature review reveals that although legislative, executive and other subsidiary structures of the provincial governments have existed for around eight years, their functioning is still not properly understood. The functional mechanisms are also influenced by practices extraneous to formal processes emerging from the legislative or executive branches of the provincial governments. Informal processes can either hinder or facilitate the functional mechanism. To comprehensively lay out the functional mechanisms of the provincial government from the prisms of the three sectors, this study will assess the provincial government's roles and responsibilities. This study also examines governance structures and institutional arrangements, including policies and legislations at the province level, with their respective mandates. Likewise, it takes stock of the existing institutional, financial, and technical capacities like human resources, and the provincial government's mechanisms to assess the effectiveness or the lack thereof of the functional mechanisms of the structures in place.

## 2.3. Methodology

### 2.3.1. Conceptual Framework

Provincial governments have attained greater significance in Nepal's practice of federalism. This scoping study has been conducted across three sectors to identify and map out progress made, and challenges faced, in the federalization process. The three sectors are: Industry, Forestry, and Agribusiness. These sectors have been selected for two key reasons: i) they are directly linked to economic growth and resource generation for the provinces, and, ii) the provinces have comparatively clearer set of sectoral jurisdictions.

### 2.3.2. Analytical Framework

This study employed the political economy analysis (PEA) framework as an analytical tool to understand the process and channels that hindered or facilitated the implementation of federalism, and of strengthening the provincial government. The PEA framework aimed to understand the factors and conditions that incentivize stakeholders to utilize legal frameworks to influence the behaviors and practices of the provincial government structures.<sup>1</sup>

### 2.3.3. Approach

This research adopted a qualitative approach, supplemented by relevant quantitative information on budget priorities and other details. The study reviewed secondary literature, and conducted field visits in Karnali, Lumbini and Madhesh provinces to collect primary data. The study also explored informal 'rules of the game', and how such informalities shape provincial priorities in these sectors. The methodology involved these components and strategies:

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<sup>1</sup> K.K. Acharya, et al. 2022. The Position of Marginalized Groups in the Elite Captured Local Level Planning Process in Nepal. *Nepal Public Policy Review*, Volume 2. (<https://www.nepjol.info/index.php/nppr/article/view/48394/36357>)

## Desk Research

Existing legislations at the federal and provincial levels that guide provincial jurisdictions in the industrial, forestry and agribusiness sectors were reviewed to identify relevant legal frameworks, provisions and institutional context at the provincial level. Periodic and annual progress reports, economic surveys and other relevant documents prepared by provincial line ministries were also reviewed. Details on provincial government budgets, sectoral priorities, and allocation of funds were also assessed through annual budget books, Red Books, and other financial documents. Four budgets – two from the previous five-year (FY 2021-022 and FY 2022-023) term and two from the current government term (FY 2023-024 and FY 2024-025) – were assessed to gain a clear understanding of the current situation, and challenges from a public finance management perspective. Analysis of legal frameworks and their implementation help identify gaps and issues in these sectoral areas.

## Field Visit and Key Informant Interviews

This study interviewed provincial stakeholders in Karnali, Lumbini and Madhesh provinces. It observed provincial governance institutions related to industry, forestry, and agriculture, and gained a comprehensive understanding of the current situation, including legal, institutional, financial, and human resources challenges, and opportunities, within these sectors. Qualitative data was gathered through interviews and group discussions wherever relevant with key provincial stakeholders. These included members of provincial planning commissions, government officials, elected representatives, thematic experts, the private sector, and provincial cabinet members overseeing the finance, industry, forestry, and agriculture sector ministries.

## Breakdown of Research Participants (Respondents and Validation Workshop Participants)

Janakpur		Lumbini		Karnali		Total
KI	32	KI	26	KI	31	89
Stakeholder Validation Workshop Participant	26	Stakeholder Validation Workshop Participant	36	Stakeholder Validation Workshop Participant	17	79
<b>Total</b>	<b>58</b>	<b>Total</b>	<b>62</b>	<b>Total</b>	<b>48</b>	<b>168</b>

## Data Analysis

Field information in the form of published/unpublished documents, reports, and interviews were meticulously documented, analyzed and synthesized to draw observations, conclusions, good practices, problems and challenges in these sectors to suggest programmatic recommendations.

Quantitative data, particularly focusing on provincial government and line ministry budgets were analyzed from public finance management (PFM) perspective. This included assessing the status of budget prioritization and implementation in the industry, forestry and agribusiness sectors in the past four fiscal years, FY 2021-025.

## Provincial-Level Workshops

DRCN held province-level stakeholder consultation workshops in all the three provinces to share, discuss, and disseminate research findings and insights. This participatory activity helped in triangulating and validating observations and findings of the research.

### 2.3.4. Limitations

This study must be seen from a set of limitations:

- This study was conducted over the duration of five and half months. Given the vast scope of the research, the coverage and details are necessarily limited.

- The research was designed to obtain and study detailed and actual budgets on the three sectors, across all three provinces. However, despite strident efforts, data could not be obtained from the provincial governments. Accessible budgets have limited breakdowns of sectors. This sets a limit of the study where the budget analysis is, at best, barely possible.
- Provincial governments show lack of institutional memory. Officials who were interviewed, or from whom data was sought, were frequently transferred between offices, making it difficult to access data, information, and relevant documents.

### 3. CONSTITUTIONAL AND LEGAL FRAMEWORK

The Constitution of Nepal outlines the powers of federal, provincial, and local governments in schedules 5 to 9. Schedule 6 lists 21 matters under provincial jurisdiction, Schedule 7 outlines 25 matters shared between federal and provincial levels, and Schedule 9 covers 15 jurisdictions concurrent between the three levels of governments. These schedules provide a basic framework for policy formulation, governance and resource allocation. Provinces play key roles in areas like internal affairs, agriculture, forestry, health, and commerce within the provinces. However, overlapping mandates, conflicting laws, and ambiguous jurisdictional limits have created practical challenges despite legislative efforts to clarify sectoral roles of each level of government.

#### 3.1. Province Governments in Industry, Forestry and Agribusiness

Provinces bridge the gaps between the federal and the local governments. Provinces have significant roles in areas like agriculture, forestry and the environment, health and population, industry and commerce, and supplies, as detailed in the Unbundling Report, which clarifies the roles and responsibilities of three levels of government as per the schedules of the Constitution.<sup>2</sup> Despite efforts to clarify and separate these exclusive and concurrent jurisdictions through legislation and executive actions, ambiguities and practical challenges in the implementation persist. This is primarily due to overlapping mandates, conflicting laws, and a lack of clear jurisdictional boundaries.<sup>3</sup> The federal government has always

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<sup>2</sup> Unbundling Report 2017

<sup>3</sup> The Asia Foundation. 2020. *Assignment of Functions Across Levels of Government in Nepal: Summary Report*. Kathmandu: The Asia Foundation. Available at: <https://>

been reluctant to devolve power to the provinces and local levels, often rolling back devolved provisions to centralize authority. This tendency has hindered the already limited mandates of the provincial governments, weakening and undermining their political legitimacy and effectiveness. Despite these challenges, the provinces have made significant progress, establishing necessary institutions, managing human resources, conducting an assessment of province's needs, and have made notable progress in institutionalizing provincial structures.<sup>4</sup>

### **3.1.1. Industry**

According to the Unbundling Report, the provincial government is responsible for various aspects of the industry sector, including policy, law, standards, planning, implementation, and regulation. The functions include establishing factories and industrialization, industrial business promotion and regulation, industry registration, licensing, renewal, and cancellation, as well as the establishment and expansion of province-level industrial and special economic zones. The provinces also oversee planning and implement industrial infrastructure development, promote the export of industrial materials, and oversee the development, promotion, and regulation of provincial public corporations.<sup>5</sup> While provinces are responsible for industrial promotion and regulation within the provinces, the federal government largely retains the control over national industrial policies and planning.

### **3.1.2. Forestry**

As per Schedule 9 of the Constitution, all three levels of governments share concurrent jurisdictions over forests. The federal government

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[asiafoundation.org/wp-content/uploads/2020/10/Assignment-of-Functions-Across-Levels-of-Government-in-Nepal.pdf](http://asiafoundation.org/wp-content/uploads/2020/10/Assignment-of-Functions-Across-Levels-of-Government-in-Nepal.pdf), accessed on September 3, 2024.

<sup>4</sup> DRCN. 2019. *Formation and Functioning of Provincial Institutions in the Federal Structure*. Lalitpur: DRCN; DRCN. 2023. *Provincial Institutions and their Functioning in Federal Nepal*. Lalitpur: DRCN

<sup>5</sup> Unbundling Report, 2017

exclusively looks at national parks and reserves. Provinces are responsible for the utilization and management of forests within their territories. The provinces have already enacted their own forest acts in accordance with the Federal Forest Act 2019. Provincial government has functions relating to utilization of forests within the province, forests shared between two or more provinces. Provincial governments have set up their ministries of forest to look after the forest sector. Forest Directorate and Division Forest Office are other operational arrangements under the government. However, the Directorate and Division Forest Office have federal employees, which effectively move the functions related to forestry to the federal government. The federal government has the Ministry of Forest and Environment and the Department of Forest and Soil Conservation to oversee the forest sector.

The Forest Act has categorized forest into national forests, government-managed forests, protected forests, forest conservation areas, community forests, leasehold forests, religious forests, private forests, and national forests within the province and collaborative/partnership forests. Federal laws regarding the management and use of forests guides or supersede provincial and local laws. Local Government Operations Act 2017, Clause 62 (a) allows the local government to raise revenue from the sale of natural resources, including forest products. This also curbs the power of the provincial government in management and utilization of the forest.

### **3.1.3. Agribusiness**

Agriculture falls under concurrent jurisdiction of federal, provincial and local governments. Provincial governments can make laws, policies, standards, and plan, implement and regulate matters relating to agriculture, livestock development, and food and nutrition. Industrialization and promotion of agriculture, development of livestock-related industry, and related occupations come under the provincial government.

According to the Unbundling Report, provinces are responsible for establishing provincial policies, laws, standards, planning, implementation, and regulation related to agriculture, livestock development, and food nutrition in the agribusiness sector. They manage agriculture and

livestock-related diseases, and insects and epidemic control, and promote agricultural industrialization and the development of livestock-related industries. Provinces facilitate agriculture and livestock mechanization and the development of advanced equipment. They oversee the registration, permission, renewal, and regulation of agricultural entities in line with national policies, and regulate curing laboratories for agriculture and livestock diseases.

Provinces determine and regulate the quality of agricultural products, livestock, and related materials. They standardize, certify, and ensure the quality of agricultural products and services, and control and regulate seeds and breeding quality. Provinces develop policies and regulations for grazing land and barren fields, ensure provincial food security, food rights, and food sovereignty, and establish agricultural statistics systems for study, research, and development. They conduct research and promote technologies related to agriculture, livestock, and food, manage the supply of fertilizers, seeds, and pesticides, and develop and manage provincial laboratories for agriculture and livestock.

Provinces provide agricultural extension services and farmer training programs, implement minimum prices for agricultural products, and plan and implement agriculture and livestock insurance. They develop and operate agricultural market infrastructure and manage agricultural firm centers.

## 4. FINDINGS

The functioning of Nepal's provincial governments involves two key aspects: (1) establishing new structures by negotiating jurisdictions and powers to fulfill mandates, and (2) operationalizing these structures to create opportunities and address responsibilities amid ambiguities and challenges. Implementation of federalism, aimed at resolving historical injustices, is hindered by the reluctance of political class to devolve power and resources, weakening provincial structures. In contrast, functioning relies on existing structures with defined rights and mandates, driven by stakeholder engagement and activities.

This study examines provincial governments' functional mechanisms, focusing on their activities, challenges in exercising rights, and addressing sectoral needs. It assumes that federalism's success depends on power devolution and effective governance across all levels. Functional mechanisms are defined as the systems, processes, and interactions used to fulfill mandated roles, highlighting the interplay between formal structures and informal practices.

### 4.1. Locating the Three Sectors

Agribusiness, forestry, and industry collectively drive Nepal's manufacturing sector by ensuring a steady supply of raw materials, and by generating employment. Strengthening these sectors through modernization, policy reforms, and infrastructure development is crucial for sustainable economic growth. Agriculture remains a key driver of Nepal's economy, contributing approximately 24 percent to the GDP and employing around 60 percent of the population.<sup>6</sup> The agribusiness sector

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<sup>6</sup> Ministry of Finance (MoF, 2023). *Economic Survey 2022/23*. Government of Nepal

supplies raw materials for food processing, dairy industry, beverage production, and textile industries. Forests cover about 40 percent of Nepal's land, supplying timber, medicinal plants, and non-timber forest products (NTFPs) vital for industries like furniture, paper, and pharmaceuticals.<sup>7</sup> Timber-based industries, handicrafts, and herbal product manufacturing rely heavily on forest resources.<sup>8</sup> Nepal's industrial sector, contributing about 15 percent to the GDP, includes manufacturing, construction, and mining. Key manufacturing industries like cement, food processing, textiles, and pharmaceuticals depend on raw materials from agriculture and forestry.<sup>9</sup>

The forestry, industry, and agribusiness sectors are important for economic growth. Though this is true from the rationale point of view, ambiguous definitions blur the distinction between agribusiness and industry, especially at the provincial level, where industrial sector is governed through Cottage and Small Industries (CSIs). Manufacturing in Nepal is also composed of agribusiness. An official at the Dailekh Office of Industry and Consumer Protection (OCIP) said, 'Senior officials expect manufacturing enterprises created through our support to make loud machine noises and produce smoke. Here, people try to start manufacturing units that process *dalmoth*, chowmein, stuff like that.' This blurring of scopes in the supply chains of sectoral goods creates challenges in regarding something as belonging in a particular sector versus another. However, it also indicates that inter-sectoral collaboration and alignment can contribute to economic growth.

The governing of agribusiness, managed by provincial ministries of agriculture, is limited to capacity development of potential entrepreneurs and small businesses, and providing logistical support like seeds, medicines

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<sup>7</sup> Department of Forests (2023). *Annual Report on Forestry and Resources Management*. Government of Nepal.

<sup>8</sup> Shrestha, R. et al. (2021). 'Forest-Based Economy in Nepal: Challenges and Opportunities.' *Journal of Sustainable Development Studies*.

<sup>9</sup> Ministry of Industry, Commerce, and Supplies (MoICS, 2023). *Industrial Development Report*. Government of Nepal.

and other services. Structures under provincial ministries of agriculture are either already heavily engaged in providing aid and financial support to people engaged in the sector or are aspiring to do something similar.

### Structures Related to the Three Sectors Across Three Provinces

Province Structures	Madhesh	Lumbini	Karnali
Ministry related to industry	Ministry of Industry, Commerce and Tourism	Ministry of Industry, Tourism and Transport	Ministry of Industry, Tourism, Forest and Environment
Ministry related to agribusiness	Ministry of Land Management, Agriculture and Cooperatives	Ministry of Agriculture, Land Management and Cooperatives	Ministry of Land Management, Agriculture and Cooperatives
Ministry related to forest	Ministry of Forests and Environment	Ministry of Forests and Environment	Ministry of Industry, Tourism, Forest and Environment
Directorate	Directorate of Agriculture Development	Directorate of Agriculture Development	Directorate of Agricultural Development
	Province Forest Directorate	Forest Directorate	Province Forest Directorate
	Department of Industry	Directorate of Industry, Commerce and Consumer Protection	Directorate of Industry, Commerce and Consumer Protection
Training Centers	Agribusiness Promotion Support and Training Center, Naktajhi, Dhanusha	Agribusiness Promotion Support and Training Center, Khajura, Banke	Agriculture and Livestock Business Promotion Training Center, Birendranagar, Surkhet
	Forest Research and Training Center, Sarlahi	Forest Research and Training Center, Butwal	Forest Research and Training Center, Surkhet

District level offices	Division Forest Office	Division Forest Office	Division Forest Office
	Cottage and Small Industries Office	Cottage and Small Industries Office	Industry and Consumer Protection Office
	Agricultural Knowledge Centre	Agricultural Knowledge Centre	Agricultural Development Office

## 4.2. Karnali Province

In Karnali Province, the Ministry of Industry, Tourism, Forest and Environment, and the Ministry of Land Management, Agriculture and Cooperative manage the governance of forestry, industry and agribusiness sectors. The consolidation of four ministries—Industry, Tourism, Forest, and Environment—in a single basket has made the task of service delivery challenging. The Ministry seems to predominantly focus on forest and environment because its secretaries have experience in forest and tourism while they lack experience in the industry sector. A private sector stakeholder lamented, ‘The ministry secretary does not want to get into things that he does not understand. And industry is one such sector.’

The secretary in question said as much, ‘Industry should be dealt through a separate ministry for it to receive better consideration.’

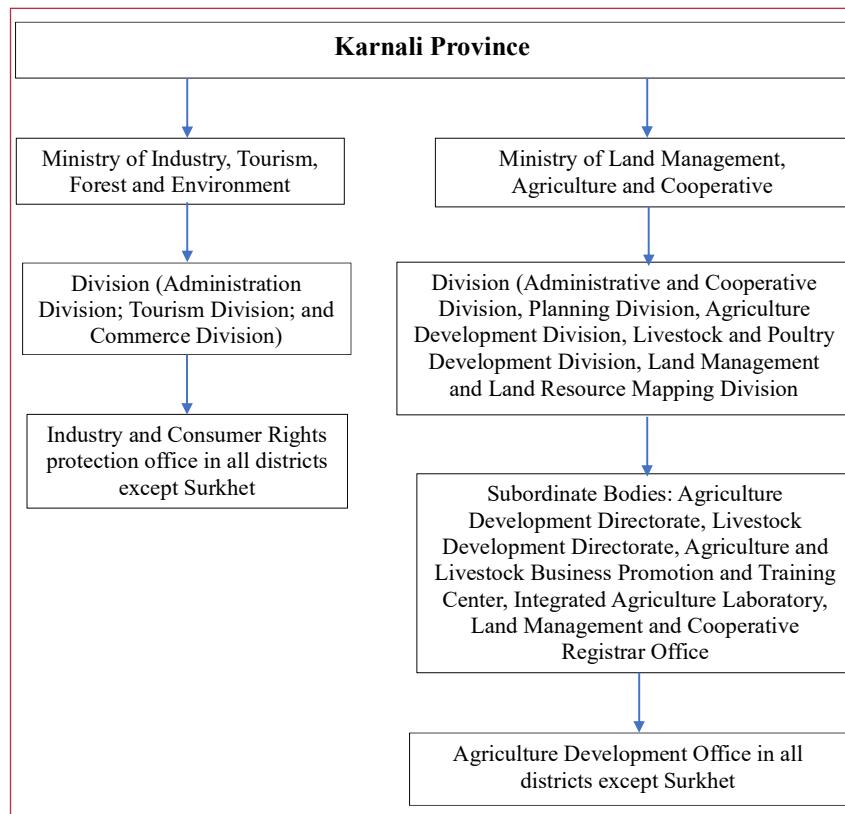
Karnali Province has created the Ministry of Land Management, Agriculture and Cooperative to look after the agricultural sector. It has two directorates: Directorate of Agriculture Development, and Directorate of Livestock Development, responsible for cultivating crops and raising livestock, and for developing and cultivating high value fruits, vegetables and herbs.

Stakeholders at the provincial level point to two fundamental issues: the limitless potential in the province in terms of resources, and where efforts meet a dead-end while attempting to channel these resources into outputs (see the details in the sections on agribusiness, industry and forestry).

#### 4.2.1. Organizational Structure

An organogram of the governance structures of the respective ministries of Karnali Province is presented here:

#### Organogram



*Note: There are other structures under each ministry. However, we have only focused on those covered by this study.*

#### 4.2.2. Industry

Karnali Province has formulated acts, laws, guidelines, procedures and regulations in the industry sector. These include: Provincial Industrial Business Act, 2078; Resin Collection Procedure, 2081; Provincial Business (Registration and Operation) (second amendment) Regulations, 2081; Criteria for Distance Between Forest Product-Based Industries and

National Forests, 2080; Extraction, Collection, Sale and Distribution of River and Mineral Resources, 2079; Karnali Province Industrial Business Regulations, 2079; and Small Industrial Village Operating Procedures, 2079.<sup>10</sup>

The industry-related programs of Karnali Province, as outlined in the FY 2024-025 budget, include developing policies, standards, and incentives for a startup ecosystem and its institutionalization. It includes training programs to support innovative entrepreneurs with technology and capacity building under the slogan 'Inspiring Innovation, Preserving Entrepreneurship'. The Business Incubation Center, established by the Government of Nepal, aims to transform youth entrepreneurial thinking into business. A professional environment is expected to attract young entrepreneurs and boost the industrial sector's contribution to the GDP. It promotes industries based on herbs and forest products in partnership with the government and private sectors. Entrepreneurs using local raw materials and innovative ideas receive encouragement and product development training. Funds are allocated for entrepreneurship development, employment training, and technology transfer. A budget of NPR 50 million supports the Dalit community through income generation and skill development programs. Procedures for marketing local products have been developed, and Koseli Ghars, or gift shops, have been established. Cooperation with local bodies ensures consumer rights through quality testing and market monitoring of goods and services.<sup>11</sup>

### **Directorate of Industry and Consumer Protection, Surkhet**

Karnali Province has a Directorate of Industry, Commerce and Consumer Protection under the Ministry of Industry, Tourism, Forest and Environment. The Directorate was established with the aim of ensuring a clean and competitive industry and commerce administration, and protecting the

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<sup>10</sup> Karnali Province Government; <http://moitfe.karnali.gov.np/act-law>

<sup>11</sup> Karnali Province Budget Statement for the fiscal year 2081/82. Government of Karnali Province. Ministry of Economic Affairs and Planning. Surkhet Available at: <http://moeap.karnali.gov.np/progressfiles/बजेट-वर्कव्य-For-web-1718953826.pdf>

rights and interests of consumers as specified by the Ministry. Industry and consumer rights offices across nine districts of Karnali Province work under this Directorate, which also functions as industry and consumer rights office for Surkhet district.

The Director of the Directorate of Industry and Consumer Protection, Surkhet, informed DRCN that the office provides short, medium and long term training to current and prospective entrepreneurs. It also provides business development training through its district-level offices. Trainings included bamboo furniture making, driving, local raw material promotion training, auto machine training, etc. According to him, the Directorate is aware that its trainings are not effective because of trained people are leaving the province or the country after training, because there is a lack of demand-based trainings, and because of limited budget and guidelines to conduct training. For example, the province allocated NPR 7.5 million under the Chief Minister Dalit Income Generation Program. Guidelines were provided to conduct three programs each with a budget of NPR 1.5 million for 60 participants in each program. The Director points out that such Ministry guidelines cause the quality of the programs to become compromised, and that programs are conducted only for the sake of having programs. He explained that trainings provided by the Province have not met the market's needs. The industry sector is allocated smaller budgets compared to other sectors like forest. The Director assumes a separate ministry focused on the industry sector would be a better alternative. Although the Directorate has been aiming to develop industry and entrepreneurship in the province, its current efforts are not sufficient. For instance, the Province lacks a mechanism to issue licenses to package medicinal herbs.

The industry sector is ignored not only by provincial mechanisms, it also does not receive attention from the development sector. This is concerning, since the province is heavily reliant on the development sector. The Directorate stated that in addition to the lack of attention from the ministry and other provincial stakeholders, development partners do not step forward to collaborate with the industry sector.

## **Industry and Consumer Protection Office**

Nine Industry and Consumer Rights Offices across Karnali Province operate the industry and commerce administration at the district level. Industry and Consumer Protection Office, Dailekh, provides different kinds of trainings related to business development and income generation. Efforts to encourage entrepreneurship in the Province meet two broader challenges: the decline in budget allocated for training and encouraging people to become entrepreneurs; and the lack of market for local products, since they are expensive in comparison with similar goods imported from the neighboring country. For example, a government official in charge of designing and providing trainings said, 'For an entrepreneur to be born and business to get established it takes time, a minimum of three years. But support from the Province is usually provided only once. Further, approximately 25 thousand rupees is provided to a prospective entrepreneur, which is simply not enough. To support an aspiring entrepreneur to build a functioning business requires around 200 thousand rupees over three years. The existing investment framework cannot yield results. Eventually, the government ends up spending money on too many people. Instead, the focus should be on fewer people, with concentrated support and supervision.'

The Surkhet Chamber of Commerce and Industry (SCCI) expressed little hope for the industrial sector's growth under the provincial government due to provincial government's failure to attract investment, support industries, and create a market. SCCI highlighted that neither the government nor banks are investing in SMEs. Banks are offering loans only against collateral, not on project-basis, which stifles SME development. Karnali Province has significant potential in sectors like water, land, forests, tourism, minerals, and medicinal herbs, but it lacks leadership with industrial expertise. SCCI also criticized outdated training programs offered by the Province, which focus on traditional skills like tailoring and beautician courses, while there is a demand for salespeople, mechanics, and production workers. ASCCI Surkhet office bearer reflected,

‘Despite demand for workers, around 50 percent of the workforce in Birendranagar Municipality comes from India.’ Likewise, an official at the Federation of Nepalese Chamber of Commerce and Industry (FNCCI), Karnali Province, stated, ‘There are conflicts within the Ministry of Industry, Forest, and Environment, as it combines conflicting sectors and is dominated by forestry-focused officials. Additionally, the Province has been unable to organize essential investment summits due to budgetary and resource constraints.’ Overall, the industrial sector in Karnali faces significant challenges due to inadequate support, outdated training, and poor governance.

#### **4.2.3. Forest Sector in Karnali Province**

The forest sector in Karnali Province has immense potential for economic growth and environmental conservation. However, achieving this potential requires addressing challenges such as overlapping taxation, improving intergovernmental coordination, and investing in modern infrastructure and training programs. By streamlining revenue distribution, revising taxation policies, and implementing sustainable management practices, the Province can unlock the full economic and ecological value of its forest resources.

**Distribution of Revenue between Federal, Provincial, and Local Governments:** Karnali Province boasts 38 percent forest cover, which is the highest among Nepal’s seven provinces. It has enacted forest laws under federal guidelines to regulate, manage, and utilize forest resources. The Karnali Province Forest Act 2078 imposes a 1 percent levy on the sale of forest products within community forest user groups and a 15 percent levy on sales to outsiders. Additionally, the Forest Act 2019 (Section 22) mandates that 25 percent of annual income from community forests must be allocated to forest management and another 25 percent toward poverty alleviation, women’s empowerment, and entrepreneurship development in collaboration with local governments.

Revenue distribution from natural resources, including forests, is governed by the Intergovernmental Fiscal Arrangement Act 2017 (Schedule

4). Royalties from natural resources are deposited into federal divisible funds, with 50 percent allocated to the federal government and 25 percent each to provincial and local governments. This framework ensures shared benefits but has faced criticism for inefficiencies and overlapping taxation.

### **Taxation Policies and Implementation at the Provincial Level:**

Taxation on forest products in Karnali Province has been a contentious issue. Community forest user groups are subject to multiple taxes: a 10 percent contribution to the local government's Reserved Fund (as per the Local Government Operation Act, 2017), a 13 percent Value Added Tax (VAT) imposed by the federal government on commercial timber sales, and additional provincial taxes on forest products. This multi-layered taxation system has been challenged by community forest groups, leading to a Supreme Court Interim Order dated 2 August, 2023, which prohibits additional taxes beyond the federal VAT on forest products like firewood and timber.

**Current Status and Challenges in the Forest Sector:** Karnali Province's forest sector holds significant potential, with 12.8 percent of its land classified as pasture and 3.2 percent as bush area. The province is a key region for the collection of Yarsagumba, a high-value medicinal fungus that can fetch up to NPR 2.8 million per kilogram. However, the sector faces challenges such as overlapping taxation, limited investment, and inadequate infrastructure for processing and marketing forest products.

The provincial government has prioritized sustainable forest management and economic utilization of forest resources. Its 2024/25 policies and programs include strategies to preserve pastureland for Yarsagumba, promote medicinal herbs farming, and expand storage, processing, and marketing facilities for forest products. The government has also emphasized eco-tourism, biodiversity conservation, and the demarcation of national forests for sustainable management. Notably, Karnali is home to two significant lakes – Rara and Phoksundo – which

are included in the conservation plans to promote eco-tourism and preserve unique ecosystems.

Despite these initiatives, the sector struggles with inadequate coordination between federal, provincial, and local governments, as well as a lack of technical expertise and funding for large-scale projects. The over-reliance on traditional forest management practices and the absence of innovative strategies further hinder progress.

### **Forest Directorate, Karnali Province**

Forest Directorate, Karnali Province was established in August of 2018 under the Ministry of Industry, Tourism, Forest and Environment of the Karnali Province Government.

A major role of the Directorate is to support the reduction of poverty by creating jobs through forest industry by sustainably managing the forest area and providing forest and ecological goods and services and using them responsibly. There are 11 division forest offices and 2 land and watershed management offices under this Directorate. Currently, the Provincial Forest Directorate has been regularly monitoring the annual programs of Division Forest Offices and Land and Watershed Management Offices under Karnali Province.

The Directorate is also responsible for monitoring and inspecting development programs operated by the offices under the Ministry of Industry, Tourism, Forest and Environment. It coordinates with projects and other non-governmental organizations that work in the province on forestry, vegetation, land conservation, forest research and small industries. It also assists in the formulation of federal, provincial and local level policies related to the forest sector, to supporting sustainable forest management with local participation in the forest sector by performing a coordinating role with the local level and state government.

## **Division Forest Office**

Division Forest Offices are district level structures established for the management of forests that come under the jurisdiction of the provinces. The responsibilities of the Division Forest Office include the following:

- Protecting forests by preventing and controlling forest encroachment, forest fires, illegal logging, and poaching of forest products;
- Regulating the collection, transportation, and utilization of wood, firewood, herbs, and other forest products;
- Carrying out forest conservation activities such as reforestation promotion, bush-clearing, thinning and pruning;
- Implementing approved forest management action plans based on sustainable and forest conservation systems to increase productivity and production of the forest area;
- Providing necessary technical assistance to community forest user groups for forest management;
- Formulating and implementing division-level plans related to forest development;
- Providing necessary technical advice to stakeholders for the development and management of private and agricultural forests;
- Ensuring sustainable management of the forests under the jurisdiction of this Division Forest Office through a community-based forest management system in accordance with forest policies and laws;
- Increasing production and productivity by promoting plantation and cultivation of timber and non-timber forest products;
- Land conservation and watershed management related activities;
- Environmental and biodiversity conservation activities;
- Facilitating the supply of forest products and the flow of environmental services,

- Forest development and management activities in coordination with district-level government and non-government organizations, local levels and other stakeholders;
- Providing technical assistance for forest development activities such as establishment, operation, plant production and tree plantation, creating employment and income-generating opportunities through forest conservation, development and utilization activities;
- Developing forest-based enterprises;
- Identification, protection and development (construction, renovation and reconstruction) of tourism infrastructure;
- Providing feedback based on field practice for the formulation of policies and laws related to forest and environment conservation, soil conservation and watershed management;
- Sustainable forest management and forest enterprise and ecotourism promotion; and,
- Green employment creation and maintaining good governance in the forest sector.

Division Forest Office, Surkhet, claims that the forestry sector is a major contributor to the province economy, contributing around 4 percent of the GDP. A Divisional Forest Officer shared that in the year 2022-2023 out of a total of NPR 670 million internal revenue collected by Karnali Province, NPR 180 million came from forest-based industry and forest products. The major contributor is the pine resin industry, with medicinal herbs in the second place and timber and timber related produce as third biggest contributors. Surkhet, Salyan, Jajarkot, Dailekh districts are highly productive in pine resin, whereas high value medicinal herbs mainly come from the upper Himalayan regions. Lower-altitude regions produce spices like Timmur (Szechwan pepper). The officer shared that Karnali has high potentials but there are gaps as well. Forests should be linked with protection, production, and marketing. Firstly, collecting and selling medicinal herbs from the forests must be discouraged while

commercial farming of medicinal herbs must be prioritized. The cycle of farming, storing, processing and marketing must be promoted. ‘Without value addition to our forest products, we cannot obtain optimum benefit.’ Some policy-level challenges remain. For instance, the Armed Forest Guards are still under the jurisdiction of the federal government, which has not devolved all the powers as directed by the Constitution of Nepal.

A Divisional Forest Officer from Dailekh also highlighted clauses in the federal Forest Act 2019, which state:

62. Investigation into and filing of cases: (1) Such employees of the Provincial Government as designated by the Provincial Government by a notification in the Provincial Gazette shall carry out investigation into the cases related to the offence punishable by imprisonment for a term not exceeding one year pursuant to this Act. (2) Such employees of the Government of Nepal as designated by the Government of Nepal by a notification in the Nepal Gazette shall carry out investigation into the cases related to the offence punishable by imprisonment for a term exceeding one year pursuant to this Act.

67. Adjudicating authority: (1) The Division Forest Officer of the Government of Nepal shall adjudicate and settle the cases under this Act which are punishable under this Act by a fine not exceeding two hundred thousand rupees or imprisonment for a term not exceeding one year or both.<sup>12</sup>

Such provisions and unclear jurisdictions impact the motivation of officers working at district level.

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<sup>12</sup> The Forest Act, 2019 (2076). <https://faolex.fao.org/docs/pdf/nep202856.pdf>

## **Forest Research Training Center, Birendranagar, Surkhet**

The Forest Research and Training Center (FRTC) was established in 2018 under the Ministry of Industry, Tourism, Forest and Environment. It is responsible for conducting training and research activities in Karnali Province. It offers forestry training and extension services, along with research on forestry sectors. The major objectives of this office are to:

- Conduct scientific study and research on forestry sector, including biodiversity, climate change, agroforestry, forest disease and pests, ecotourism etc.;
- Conduct forest inventory and develop forest resource database at the provincial level; and,
- Organize trainings for forestry-sector professionals, forest users groups, and local people on various aspects related to forest resource management, biodiversity conservation, climate change mitigation and adaptation, agroforestry, forest disease and pests, waste management and ecotourism promotion.

According to a FRTC Senior Officer, FRTC Karnali has conducted a handful of research through internship and fellowship grants, which have been published in international journals. She shared that the major challenges lie in the inability to incorporate the findings of research into province policies because the research and their findings are a low-priority for the Ministry. FRTC Karnali had planned to conduct an inter-province meeting this year, including FRTC Kathmandu, to encourage coordination and knowledge-sharing among themselves. FRTC provides more trainings than conducts research, which doesn't address the data needs of the Province.

## **Progress and Gaps in Industry and Forestry Sectors**

As illustrated in the organogram in Section 4.2, the industry and forestry sectors in Karnali Province are managed by the Ministry of Industry,

Tourism, Forest and Environment. The Ministry is primarily responsible for all policies, programs, and budget implementation related to both the forestry and industry sectors. According to the Karnali Province Government (Work Division) Regulation 2017, the ministry has a total of 62 designated responsibilities.<sup>13</sup> However, the Sixth Annual Report (2024) by the Office of the Auditor General (OAG) reveals that the Karnali Province Government has not initiated many important tasks related to trade and commerce, industry, forestry, tourism, transport and cargo management, formation of provincial-level industrial zones/special economic zones, categorization of industries based on federal standards, quality control and regulation, and the establishment of consumer courts, among others.<sup>14</sup>

There are two key reasons behind the failure to initiate tasks that are instrumental to institutionalizing the sectors and their various activities. First, the amalgamation of four sectors into a single ministry makes this sector a lesser priority. A senior official at the relevant Ministry also acknowledges, ‘The industry does not get the attention it deserves. For it to function effectively, it should be treated separately.’ Second, the investment by the provincial government in training local human resources is not yielding expected results. An FNCCI officials said, ‘The provincial government and the relevant ministry are engaging in activities that are far from what is needed for the growth and promotion of the industrial sector. They spent quite a lot of money to train manpower here while we still have to bring skilled workers from India for the industrial sector.’

The OAG report further highlights that the Province has not yet formulated provincial-level policies for trade, commerce, industry, forestry, and tourism, and recommends the province to develop a masterplan to

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<sup>13</sup> Province Government (Work Division) Regulation, 2074. Pp. 9-11 <https://ocmcm.karnali.gov.np/sites/ocmcm/files/2020-05/कार्य%20विभाजन%20नियमावली%20दोश्रो%20संशोधन%20समेत%20मिलाइएको. pdf>

<sup>14</sup> Office of the Auditor General (OAG). 2081. Sixth Annual Report of Office of the Auditor General, 2081. Pp. 32. <https://oag.gov.np/uploads/files/C2B-कर्णाली%20प्रदेश.%20२०८१. pdf>

identify key industrial, environmental and tourism zones and implement it.<sup>15</sup> While the province has formulated the ‘Operation of Micro Industrial village Guideline 2079,’<sup>16</sup> with the aim of mobilizing local resources, raw materials, technology, skills, and human resources, promoting small and cottage industries, and contributing to the provincial economy through employment generation and raising income, no concrete effort has been made to achieve these objectives. Efforts to integrate and organize scattered small industries from selected locations and provide them with access to essential services and infrastructure have also not been realized.

Additionally, the OAG report points out that in its first five-year plan, the Province identified some key initiatives, such as processing herbs, creating a Karnali brand, processing and marketing precious stones, and establishing financial mechanisms for industrial development. These have not yet been implemented. This indicates that the efforts taken by the province to develop industry and forestry sectors have been inadequate. Most province-level stakeholders interviewed for this study also emphasized that the Province has failed to tap into the immense potential of the industry and forestry sectors.

In the fiscal year 2022-23, the Ministry and its 26 subordinate offices under the Ministry were allocated NPR 218,769,000 of which NPR 14,270,330,000 (64 percent) was spent. However, the provincial government could not implement many of its programs, such as establishing and operating industries through interest-free loans and entrepreneurial support, constructing micro-industrial villages, establishing environmental pollution monitoring stations, and constructing Divisional Forest Offices, due to which much of the funds remained unspent.

The OAG report highlights that the provincial government has failed to take adequate measures to prevent encroachment of forests

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<sup>15</sup> Office of the Auditor General (OAG). 2081. Sixth Annual Report of Office of the Auditor General, 2081. Pp. 32. <https://oag.gov.np/uploads/files/C2B-कर्णाली%20प्रदेश,%20२०८१, pdf>

<sup>16</sup> Operation of Micro Industrial Village Guideline. 2079. <http://moitfe.karnali.gov.np/karyabidhi>

under provincial jurisdiction. In 2023, Karnali Province generated NPR 74,852,000 in revenue from the collection, sale and distribution of forest produce. However, the Ministry lacks effective mechanisms to monitor these activities for optimum utilization, transparency, and accountability.

The provincial government is also responsible for maintaining up-to-date records of various types of industries registered within the Province. According to the OAG report, by 2023, a total of 3,497 industries had been registered in the province.<sup>17</sup> There are 3 energy-based industries, 142 manufacturing-based industries, 2,310 agriculture and forestry-based industries, one mining-based industry, 36 industries related to the construction sector, 172 tourism-related enterprises, and another 833 enterprises that are service-based. Out of the total industries registered, industries in the agriculture and forestry sectors comprise almost 65 percent. Most of these industries are spread across all the districts of the province, generating NPR 22 million 546 thousand in revenue in 2023.<sup>18</sup> Despite this, the lack of effective implementation of key programs, and monitoring mechanisms suggests significant gaps in effective management of industry and forestry sectors in the province.

#### **4.2.4. Agribusiness**

Karnali Province, Nepal's largest by area (27,984 sq. km) but with a small population of 1.7 million, relies heavily on agriculture, which contributes 45.6 percent to its GDP. According to the National Agriculture Census, 82.63 percent of the population of Karnali Province depends on farming, yet only 30 percent families are self-sufficient. Over 70 percent practice subsistence farming and cannot sustain themselves year-round.

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<sup>17</sup> Office of the Auditor General (OAG). 2081. Sixth Annual Report of Office of the Auditor General, 2081. Pp. 35. <https://oag.gov.np/uploads/files/C2B-कर्णाली%20प्रदेश.%20२०८१.pdf>

<sup>18</sup> Office of the Auditor General (OAG). 2081. Sixth Annual Report of Office of the Auditor General, 2081. Pp. 35. <https://oag.gov.np/uploads/files/C2B-कर्णाली%20प्रदेश.%20२०८१.pdf>

The provincial government has prioritized agriculture, enacting laws like the Karnali Agricultural Business Promotion Act 2079 and the Act to Regulate Organic Agriculture 2077 to promote agribusiness and organic farming. It has also established a Horticulture Development Centre and a market development branch to address food security and market access challenges. Despite these efforts, Karnali remains a food-deficit region, with many districts relying on aid due to remoteness and limited market access.

The Provincial Agricultural Business Promotion Committee, formed under the 2079 Act, coordinates with federal and local governments to develop policies and plans for agribusiness. The Act allows individuals, cooperatives, and institutions to engage in agricultural businesses, and to foster partnerships with public, private, and community organizations.

For FY 2024/025, the Province allocated NPR 1.86 billion to the Ministry of Land Management, Agriculture, and Cooperative. Key programs focus on reducing agricultural imports, promoting commercial farming of vegetables, fruits, livestock, and fish, and implementing district-specific initiatives. Despite high priority and investment, challenges like subsistence farming, food insecurity, and market access gaps persist, requiring sustained efforts to achieve self-sufficiency and economic growth.

### **The Organic Vision: A Long-Standing Narrative**

Karnali Province, with its vast fertile lands and rich biodiversity, has long been envisioned as a potential hub for organic agriculture. The region's ability to produce fruits, vegetables, and indigenous crops without the need for chemical fertilizers makes it an ideal candidate for transitioning into an organic-only province. However, despite the enthusiasm and effort from various stakeholders, this vision remains largely unfulfilled due to systemic challenges and gaps in implementation.

The idea of transforming Karnali into an organic province is not new. Even before the advent of federalism in Nepal, there was a strong desire to turn the Karnali region into an organic agricultural zone. This vision gained

momentum with the establishment of Karnali Province, as the provincial government, civil society, and private sector stakeholders began advocating for a self-reliant, organic economy. The narrative revolves around consuming and trading locally grown products, reducing dependency on imported food, and promoting sustainable agricultural practices.

A significant step toward this vision was taken by a former agriculture minister, who, during her tenure, announced that the Province would restrict the import of food material. As a part of this initiative, two inspection stations were set up at entry points into the Province to monitor and regulate the flow of agricultural products. However, the collapse of the coalition government she was part of led to the discontinuation of these efforts, leaving the vision unrealized.

### **Challenges in Realizing the Organic Vision**

Despite the widespread support for an organic-only Karnali, several challenges have hindered its realization.

**Lack of Support for Farmers:** The provincial government has consistently emphasized the importance of agriculture and organic farming in its policies and programs. However, the gap between promises and practical support has left many farmers disillusioned. For instance, a young farmer, inspired by the government's call for youth participation in commercial farming, leased land and invested in growing grains, vegetables, and livestock. Despite assurances of full support from provincial leaders, he found that accessing government assistance was fraught with conditions and bureaucratic hurdles. Unable to secure the necessary resources and guidance, he became disheartened. His experience reflects the broader issue of unmet expectations among aspiring farmers.

**Medicinal Herbs – Potential versus Practicality:** Karnali Province is rich in medicinal herbs, which are often touted as a key driver of economic prosperity. The provincial government frequently highlights the potential of these resources to transform the local economy. However, a closer

examination reveals a lack of credible data on the scale and distribution of these herbs, as well as the absence of a comprehensive framework to harness their economic potential. While the government focuses on the extraction and sale of raw herbs, there is little investment in processing, value addition, or market development. This narrow approach limits the economic benefits that could be derived from this valuable resource.

**Certification and Legal Barriers:** Entrepreneurs in the medicinal herb sector face significant challenges in meeting legal and certification requirements, particularly for international markets. One young entrepreneur, who processes herbs into teas, incenses, and herbal medicines, shared his frustration with the existing system. While local markets tolerate informal sales, international markets demand clear certifications, which are difficult to obtain due to the lack of government infrastructure and support. This entrepreneur, who started his venture inspired by the government's promises, found that the reality fell far short of the rhetoric. Despite these challenges, he remains hopeful that provincial officials are working to address these issues through coordination with federal authorities.

The dream of an organic-only Karnali Province is both inspiring and aligned with the region's natural strengths. However, realizing this vision requires more than just rhetoric. It demands robust infrastructure, reliable support systems, and effective coordination between provincial and federal governments. Addressing these gaps is crucial to transforming the narrative into reality and unlocking the full potential of Karnali's agricultural and medicinal resources. Until then, the vision of an organic Karnali remains sustained only by the hopes and efforts of its people.

### **Directorate of Agricultural Development, Karnali Province**

The Directorate of Agricultural Development, Karnali Province, was established on October 11, 2018, to support policy formulation, agricultural programs, and regulation of subordinate agencies. Its goals include increasing agricultural production and productivity, transforming subsistence farming into a profitable and sustainable system, boosting

income and employment through agriculture-based industries, and enhancing the sector's competitiveness in the national economy. The Directorate also focuses on adaptive research, market promotion, and balancing agricultural development with environmental protection.

Key plans emphasize commercial crop production based on geographic potential, developing agricultural technologies through collaboration with the private sector and research institutions, and enhancing market infrastructure. It aims to link agricultural production with agro-based industries, prioritize intensive crop production in irrigated areas, and diversify crops for commercialization. Programs target to uplift marginalized farmers and women, promote agricultural tourism, and conserve indigenous and endangered crops. The Directorate also emphasizes utilizing uncultivated land, reducing post-harvest losses, and advancing technology adoption in agricultural processes to maximize productivity and sustainability.

The Directorate coordinates with its 11 subordinate offices, including nine Agriculture Development Offices and two Horticulture Development Farms. Notably, the district-level structure in Karnali uses the term 'Agriculture Development Office' instead of 'Agriculture Knowledge Center', as seen in other provinces. The Directorate, located in Birendranagar of Surkhet, also functions as the Agriculture Development Office for Surkhet, coordinating subordinate offices and implementing district-level programs.

For the Fiscal Year 2024-025, key programs for Surkhet include subsidies on loan interest, targeted programs for poor and marginalized communities, organic farming and native crop promotion, agricultural technology promotion, food security initiatives, agribusiness promotion, and agricultural infrastructure development. The Directorate also implements federal conditional grant programs, such as incentives for improved seeds and support for processing infrastructure.

Provincial agricultural programs follow a categorical approach, addressing three groups: (1) farmers without access to any resources, (2) farmers working with limited resources, and (3) commercial-level

farmers. Support includes loan interest subsidies (7 to 10 percent) for commercial farmers on loans up to NPR 10 million, technology and promotional support for resource-limited farmers, and seed distribution for those with no access to resources. Native crop promotion, organic farming, technology extension, and small irrigation projects remain top priorities for the Directorate in fostering sustainable agricultural growth in Karnali Province.

### **Pesticide Testing Laboratory**

The Karnali Province government established a laboratory, in Harre of Surkhet district, to test pesticide levels in agricultural products to discourage pesticide use and promote organic farming. The initiative, led by Bimala K.C., the erstwhile Minister of Land Management, Agriculture and Cooperatives, began in 2019 and was completed in 2021. The lab was built with a partnership between the provincial government and a cooperative, on land leased for 35 years. However, the facility has never become operational due to a lack of necessary staff, technology, and proper operation and maintenance (O&M) procedures. The failure to launch the lab is believed to be linked to intentional neglect by senior officials, who are allegedly engaged in a rent-seeking process to appoint a chief of the office who could serve their personal interests. This case highlights inefficiencies and potential corruption in public sector projects that ultimately undermine their intended goals.

### **Agricultural Development Office**

Provincial programs implementing bodies are district level structures. Most of the district level agricultural offices in Karnali were established in fiscal year 2019/2020. It has been providing services as the Agricultural Development Office (ADO), under the Directorate of Agricultural Development of the Ministry of Land Management Agriculture and Cooperatives, Karnali Province.

Major responsibilities of ADO include local problems-based testing laboratory services, capacity development of technicians and farmers,

technical support to local agricultural bodies, seed vision and resource center, development of advanced breeds, collection of agricultural data, agricultural business development support, farmer call center operation, and to work as a bridge between the federal and the local levels. The office is also responsible for providing expert services such as inspecting seeds, crops, pesticides, and chemical fertilizers; regulating agro-vets; identifying and managing diseases and pests; providing assistance to increase the production and productivity of commercial agricultural crops and products; improving farming systems; and, promoting markets through private entrepreneurs, farmer groups, and farmer cooperatives based on the grant system.

The ADO also conducts integrated pest management program to help promote organic farming, carries out disease and insect management through the use of organic manure and pesticides, improves the quality of organic fertilizers, provides support for activities such as integrated food management, etc., in accordance with Karnali Province government's policies and programs to make Karnali an organic agriculture province. Value addition for produced crops and goods, agricultural enterprises and businesses, agricultural tourism, agricultural processing, food health, quality control center are also major priority areas.

ADO Dailekh's budget this year is around NPR 120 million, according to an Organic Agriculture Expert at the Office. Of this, around NPR 50 million is earmarked for irrigation projects. The Office implements1 to three days-long training programs at the district level. Additionally, ADO Dailekh also provides a day-long mobile training at the local levels, which educates farmers about vegetable farming; and two to three days-long trainings at the district level on plant cutting, grafting, and nursery management, etc.

An organic farming expert and officer at ADO, who is responsible for implementing programs, shared that there are lots of challenges to implementing programs at the district level. He shared that programs are planned in a top-down approach rather than a bottom-up approach. Though there is a process in place to make the planning bottom-up, the

results don't show any evidence of the process being followed. The official was alluding to projects with budgets of NPR 500 to 600 thousand being implemented directly by the Ministry to implement in certain areas. Also, some target-group programs, with budgets of about NPR 8 million, have been designated to the constituencies of the members of the Provincial Assembly. The claim is that these are demand-based programs, but in reality they are influenced heavily by elected Provincial Assembly members. Another major challenge he shared was that the advertisements about the programs, grants and support hardly reaches the farmers at the grassroots level because they don't have access to, or cannot access, such information. The program beneficiaries are always farmers who have access to such information, or are linked to powerful people. When assistance, grants or subsidies, beneficiaries are available, a public notice is issued at least a month in advance before the final date for submission of applications. Potential beneficiaries are required to submit documents showing that they are registered firms, and visit the office to complete relevant procedures. The average farmer in Karnali Province finds it difficult to fulfill all of the requirements, and therefore is usually left out of such benefit schemes. However, there are some success stories as well. A farmer from Dullu Municipality Ward-13 was able to produce vegetable seeds of up to NPR 30 million in value, and oranges up to 150 million. Vegetable seeds were exported to India as well. ADO had supported the farmer in the past. But the ADO officer shared that the budget at district level is so minimal that they cannot support the farmers to their expectation.

A young Agro-entrepreneur who owns Basanta Organic Krishi Farm, in Birendranagar of Surkhet, said that the provincial government's actions do not align with its words. It talks about declaring the Karnali an organic province, but has allocated a sizable budget for chemical fertilizers. Additionally, there is no guarantee of the price for produce, even though the province should at least guarantee the purchase of farmers' produce. He also complained that the province's programs are small, distributive, and the process to receive assistance or grants and subsidies is very cumbersome and lengthy. 'I urgently need a water source to continue

farming, but I am not receiving any support. I have visited the Ward Office, the Municipality Office, the Directorate Office, the provincial Ministry of Agriculture, the Irrigation Department, and federal-level offices seeking help to install a bore-well. Each office directs me to another. I still haven't been able to dig a well.' He claims that this is due to a lack of resources, and also because he is not part of a close-knit group of government officials and political leaders, which makes things even more difficult. He asserts, 'There are agents everywhere. Everyone here is a broker looking for a commission. No one is working for the betterment of the agricultural sector or for entrepreneurs. Everyone just talks. Many people, even ministers, have visited my farm. They all praise my efforts, but when I ask for help, they try to avoid me. Some agents offer help with subsidy and grant applications and ask for a certain percentage as a commission – mostly five percent. The system is corrupt. Everyone is corrupt.' According to him, the fundamental need is to invest in those involved in agribusiness or those who plan to enter the sector. However, no one is willing to support the investment part. He believes that officials, ministers, and other stakeholders working in this sector must visit farms directly, observe their needs, and provide the required support. It should not be the farmer's responsibility to visit offices repeatedly to seek help. The government only prioritizes agriculture in policy and speeches. In reality, it does nothing. He demanded the government strictly monitor the chemicals used in imported vegetables from India, and that it ban produce that do not meet standards for consumption.

Malika Dragon Fruit Farm in Nevare of Surkhet operates on leased land, with a rent of NPR 300,000 per year. The owner has invested in the farm with loans taken from people at an interest rate of 3 percent per month. The owner shared, 'It is difficult to access loans from the bank because it requires collateral, and we must repay installments on time, which is why I did not opt for a bank loan.' She appreciated the support provided by the provincial government and local government. But she says that the support has also decreased. As support from the provincial government, she has received around NPR 60 thousand to help with the cost of leasing the land,

on 30 percent of the cost of a power tiller. From the Municipality, she has received around NPR 200 thousand, which paid for about 30 percent of the cost of setting up a 10' by 12' plastic tunnel and pillars to support it. Her daughter helped with the formalities required to apply for the support. It was a very difficult process, she admits. 'If it weren't for my daughter's assistance, I would never have been able to receive any support. It takes a minimum of 5 to 7 visits to the offices to receive a grant.'

Prativa Agriculture and Livestock Firm, Surkhet, also received some support from the Province. The owner shared that he received the 50 percent of the cost of about NPR 1.4 million for installing a bore-well from the provincial government. He appreciated the support from the government but complains that the government has never returned to monitor its investment in the bore-well. The government is also not able to guarantee a market for the farmers' produce. When vegetable production increases in the Province, the Indian market decreases the price of the produce. Since there is no restriction in importing Indian vegetables, local produce suffers from the competition. Provincial programs related to agriculture aren't up-to-date either. They keep offering the same basic vegetable farming training, even to someone who has already been in the sector for 16 years. The government's approach is not farmer-friendly, as it provides loans only to farmers who own land. He claims, 'Why would people who have enough land engage in farming? They are rich enough to lease or sell their land and live off the cash. It is the landless farmers, who lack resources, who rely on agriculture, and who need support. But only people who own big businesses get agro-loans.' He also pointed to irregularities in distribution of grants. For example, it costs NPR 107 thousand to build a plastic tunnel construction as per the Ministry guidelines, including VAT. But provincial government officials will insist that the farmers or grantees hire the vendor recommended by them, who charges NPR 128 thousand for the exact same work. This hints at systematic corruption in provincial programs.

## **Agriculture and Livestock Business Promotion Training Center, Birendranagar, Surkhet**

Agricultural Business Promotion Support and Training Center was established in the fiscal year 2018/2019 under the Directorate of Agricultural Development, Ministry of Land Management, Agriculture, and Cooperatives (MoLMAC), Karnali Province. Following the organizational restructuring by the Karnali Province government, the Animal Services Training Center and the Agricultural Business Promotion Support and Training Center were merged to form the Agriculture and Livestock Business Promotion Training Center, under the MoLMAC, on November 3, 2019.

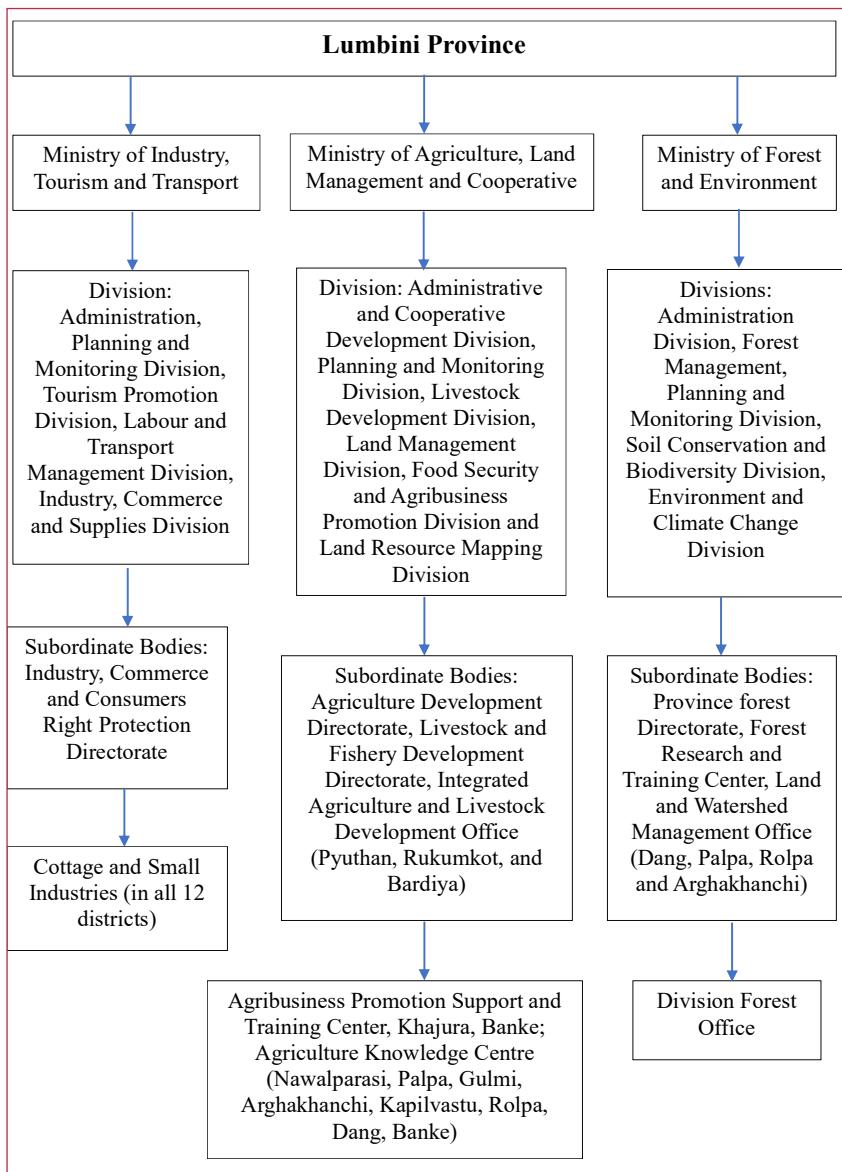
Agriculture Business Promotion Support and Training Center is responsible for conducting regular trainings on entrepreneurship and agribusiness development, and for conducting capacity development training for farmers. The office claims to have given business development training to jobless agriculture and livestock technicians, and to have deployed them at the district level to provide the same training to farmers. The training sought a total of 200 participants, but only 149 enrolled, of whom 133 completed the training. Such trained human resource helps the center to implement its outdoor training at the local levels. The challenge faced by the center is the scarcity of expert resource personnel to give the training. There is also a lack of coordination with the Directorate. There is a lack of data about the entrepreneurs, and the Directorate is unable to provide exact data.

## **4.3. Lumbini Province**

### **4.3.1. Organizational Structure**

In Lumbini Province, three separate ministries oversee the three sectors covered by this study. The Ministry of Agriculture, Land Management, and Cooperatives oversees agricultural development, land management, livestock promotion and food security. It operates through multiple

## Organogram



divisions and subordinate offices, such as agriculture and livestock development directorates, agriculture knowledge centers, and livestock

expert centers at the district level. The Ministry of Industry, Tourism, and Transport administers industrial development and tourism within the Province, and oversees cottage and small industries in all districts of the Province. Similarly, the Ministry of Forest and Environment supervises forest and biodiversity. Under several divisions, the Forest Management, Planning and Monitoring Division focuses on forest enterprise development, while the Social Conservation and Biodiversity Division administers biodiversity and medicinal herbs development. The periodic plan of Lumbini Province emphasizes selecting feasible and economically viable programs for inclusion in its policies. However, some industry, forestry, and agriculture initiatives have faced implementation challenges due to resource constraints.

The Sixth Annual Report of the Auditor General highlights key programs from the First Periodic Plan (2019/20–2023/24), such as establishing industrial zones in Rupandehi, Banke, and Dang; developing infrastructure; expanding markets through provincial branding; and, conducting industrial research. While efforts to establish industrial villages at the local levels are ongoing, plans for mining exploration, gemstone research, and excavation remain unimplemented.<sup>19</sup>

#### **4.3.2. Industry**

Lumbini Province formulated several primary and secondary legislations, including: Distance Criteria Between Forest Yield-Based Industries and National Forests, 2079; Mining Exploration and Management Act; An Act to Regulate Industrial Business 2079; River Products Management Procedure, 2075; Act to Make Provisions Regarding Manure Management 2075; Commercial and Industrial Promotion Program Implementation Procedure, 2080; Conduct of Vocational and Skilled Training (First Amendment) Procedure, 2081; Enterprise Development Fund Operation (First Amendment) Regulations, 2078; and, Enterprise Development Fund Operation regulations, 2077, among others. The creation of legal

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<sup>19</sup> Auditor General Reports (First to Sixth).

procedures related to industry and commerce is outlined as a major task for provincial ministries, and has been prioritized in annual programs. Public awareness initiatives, educational outreach, market monitoring, quality assurance workshops, industry and commerce fairs, and a holistic approach to safety and hygiene are also included in annual programs, implemented through various subordinate offices, divisions, and branches under provincial ministries.<sup>20</sup>

The Lumbini Province government has faced challenges in executing certain industry and commerce-related initiatives outlined in these policies and programs. For instance, several programs announced in the Lumbini Province government's FY 2023/024 policy and programs, such as conducting a feasibility study for mines with potential for extracting precious metals like copper, lead, and gold in collaboration with the federal government; promoting private sector investment in the establishment of a paper industry; building industrial infrastructure at the local level; establishing an industrial village in each constituency; and ensuring quality food distribution through the creation of a provincial food quality measurement laboratory, were not implemented during that fiscal year.<sup>21</sup> Likewise, in FY 2024/025 Lumbini Province emphasized enhancing collaboration between federal and provincial officials in industry and commerce through integrated approaches. Efforts to strengthen relationships with province-level stakeholders include active engagement with industrialists through programs like 'Province-Level Interaction with Industrialists.' However, these efforts did not become reality.

According to the Provincial Government (Division of Work) Regulations, provincial ministries hold the primary responsibility for the formulating and implementing laws, policies, programs, and budgets, for coordinating, and form on it central accounting. In FY 2020/021, the Ministry of Industry and Transport, which oversees policy formulation and

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<sup>20</sup> Province Government Lumbini.2 081 BS. *Annual Program Fiscal year 2081/082*. Deukhuri: Province Government Lumbini.

<sup>21</sup> Auditor General Report, 2081.

monitoring, also directly implemented programs totaling NPR 31,499,000, including the preparation of the Detailed Project Report (DPR), home-stay operation grants, and forest enterprise grants. These programs, however, should have been managed by subordinate bodies.<sup>22</sup> When the monitoring body assumes responsibility for implementing programs, it often leads to weakened oversight, which can negatively impact the quality of the work. This may cause the offices under the relevant ministries to become inactive. Given that such practices have been observed in the ministries of the provincial government, the ministry should refrain from implementing such programs.

There are some other developments in the provincial government's quest to govern the sector in ways that makes the Province both the planner and the policymaker in the sector. The Ministry of Industry, Tourism and Transport levied an NPR 1/- tax on every sack of cement produced in the Province to address the environmental impacts of cement production. However, the stakeholders from the private sector defied this levy and made it fail. DRCN researchers asked the Minister for Industry, Tourism and Transport, 'On what basis you set the one rupee threshold for taxing the cement manufacturing? Did you create any framework that suggests addressing the environmental impact of cement manufacturing requires this rate of tax?' He responded, 'We will work it out once we have the revenue.' Private sector stakeholders also assert, 'We are willing to pay taxes if there is some basis on which taxes are determined. However, we can't pay taxes made on a purely ad-hoc basis.'

The Directorate in the Province appears to be executing its task of monitoring food quality and standards. The Directorate had conducted a number of such monitoring and inspection actions with the support of the Nepal police, and some support from local governments.

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<sup>22</sup> Auditor General Report, 2079.

## **Directorate of Industry, Commerce and Consumer Protection**

The industry sector is often assumed to be the primary source of revenue for the province. However, in reality, the relation between the provincial government and industry sector is not as strong as assumed. Among the three sectors, the industry sector appears to be the least integrated with the provincial government.

The Directorate of Industry, Commerce and Consumer Protection has the responsibility of coordinating with the District Office of Cottage and Small Industries, registering and renewing medium-level industries, and monitoring the market for consumer's rights protection. The major role of the Directorate office is monitoring, but office bearers find the duty debilitating.

The Director at the Directorate explained, 'Our job is to report to the Ministry. We collect information and updates from the district-level Cottage and Small Industries offices, compile them, and send them to the Ministry. That is all we do. We have not been given the responsibility to oversee mid-level industries registered with the federal Department of Industry.' According to Section 5 of the Industrial Enterprises Act, 2076, industries with fixed asset up to NPR 200 thousand are categorized under cottage industries. Industries with fixed assets up to NPR 30 million are categorized under small industries, while industries with fixed assets between NPR 30 million and NPR 100 million are categorized as mid-level industries. Enterprises whose fixed assets exceed NPR 100 million in value are categorized under large-scale industries.

There is minimal activity happening through the Directorate Office. For instance, the Director informed that in the three months since his appointment, only one enterprise— a crusher industry —had applied for registration, and one thresher industry had applied for renewal. However, the office couldn't process the renewal request of the thresher industry due to noncompliance with new guidelines. The problem lies in the policy. Initially, permission was granted to establish the industry, but later, the stricter guidelines were introduced. The new guideline states that the

industry must be at least 2 km away from the Nepal-India border. Global Positioning System (GPS) measurements showed that compliance was not met. Monitoring responsibility without the authority to reward and punish is viewed as ineffective. For example, the Directorate monitored spa centers which have proliferated in Rupandehi district and found that most of them were registered at the local level under minimal investment ceiling under NPR 500 thousand. However, during an official inspection, it was found that they had significantly higher investments and should have been registered with the Cottage and Small Industries Office (CSIO) instead. The Directorate could only advise them to increase their declared investment and re-register in the CSIO. Such weak regulatory practices appear to have largely hampered provincial revenue collection.

### **Cottage and Small Industries Office**

Section 3 of the Private Firm Registration Act, 2076, establishes the provisions for the registration of private firms. According to ministry records, by the end of FY 2022/023, a total of 5,134 cottage and small industries were registered in the province, with a capital investment of NPR 10,965,900,000. These industries have created an estimated 20,342 jobs.<sup>23</sup>

The Cottage and Small Industries Office (CSIO) manages the registration, renewal and training services for cottage and small industries. According to CSIO, industries with capital up to NPR 50 million are registered with this office, industries with capital up to NPR 100 million are registered at the Directorate Office, and those above NPR 100 million are registered with the Department of Industry at the Federal Ministry of Industry, Commerce, and Supplies. This indicates that the Province government has limited authority over industries as they remain largely centralized, with large-scale industries managed by the federal government.

Rule 40 of the Financial Procedures and Financial Responsibility Regulations, 2077, mandates the preparation of an annual report to monitor whether the grant amount provided to an association or organization is

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<sup>23</sup> Auditor General Report, 2081.

spent in accordance with the intended purpose. However, the Cottage and Small Industries Office did not monitor whether the grant allocated for the establishment and operation of Koseli Ghar was utilized as per the specified target. It is recommended that, in the future, grants be provided as seed funds, with a provision requiring the repayment of the grant amount after the sale of the goods purchased with these funds.<sup>24</sup> It is necessary to effectively and regularly monitor the grants provided by the provincial government.

## **Observations**

The governance and management of industrial activities in Lumbini Province is planned, and conducted through the Ministry of Industry, Tourism and Transport. The functional structure that was seen in the governance and management of the industrial sector at the provincial level was the Cottage and Small Industries (CSIs) under the Directorate, a subordinate structure in the provincial scheme of things.

### **The observation of the industrial governance of Lumbini Province suggests:**

**Pre-Federal vs. Federal Structure:** Before federalism, CSIs operated under a centralized system, with a clear line of management. In the federal structure, the Directorate under the Ministry of Industry, Tourism, and Transport oversees these industries. Despite the structural shift, the functioning of CSIs has remained largely unchanged, indicating a lack of significant reform or adaptation to the federal system, which may hinder the sector's growth and responsiveness to local needs.

**Evidence of Weak Engagement by the Ministry:** The Ministry is located on the top floor of a four-story building owned by a municipality, with the municipality occupying the majority of the building. As DRCN researchers waited for two hours to meet the Minister, they saw barely any visitors seeking services from the Ministry. This suggests a lack

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<sup>24</sup> Auditor General Report, 2081.

of public engagement, awareness, or trust in the Ministry's ability to address industrial sector needs. The physical location also symbolizes the Ministry's marginalization and lack of prominence in the Province's governance structure. Likewise, the senior-most official at the Directorate of Industry, which is responsible for overseeing the industrial sector, had never heard of Special Economic Zones (SEZs). This is particularly concerning given that Bhairahawa, a major economic hub in Lumbini Province, has been identified as a prime location for an SEZ due to its growing economic activity. The lack of awareness among key officials reflects a significant gap in knowledge, planning, and implementation at the provincial level, which could hinder the development of critical industrial infrastructure.

## **Challenges**

There is no 'one-door' policy for small industries to operate, making the process difficult and cumbersome. For example, if someone wants to start a small furniture industry, they must meet criteria and standards set in forest regulations, comply with tax laws, register at the local level, and pay taxes. This complex process discourages new entrepreneurs from emerging.

Due to operational challenges, including the incomplete construction of industrial villages and insufficient infrastructure development for industries, the registration of 1,300 industries was subsequently canceled.<sup>25</sup>

According to the Enterprise Development Fund Operating Regulations, 2077, provisions are in place to provide subsidies on interest amounts for bank loans taken by industries to establish, operate, and build capacity. However, the Ministry has not effectively managed records of the entrepreneurs and industries who have received this subsidy, nor has it established clear priorities to prevent double subsidies being obtained from both the federal government and local levels. The Sixth Annual Report of the Auditor General has recommended a better coordination of the distribution of interest subsidies across all levels of

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<sup>25</sup> Auditor General Report, 2081.

government to ensure that no single entrepreneur receives dual benefits.<sup>26</sup> Industry sector stakeholders demand that the Province should provide skill-based training, as there is a lack of skilled manpower in the sector. Instead of providing traditional training programs like *dhakia* basket making, industry sector stakeholders expect more impactful trainings. Most industry sector workers in Lumbini Province come from India, indicating a gap in local human resource skills development. The training programs provided by provincial and local governments do not meet the specific needs of the sector and are viewed as ‘outdated’ by some local entrepreneurs. A youth entrepreneur based in Butwal says, ‘It is shameful to say, but local and provincial government training programs still include skills like doll and cushion making or mobile phone repair, which do not align with the current demands of the labor market.’ The authorities must focus on need-based training. For instance, software experts are in high demand in Butwal but there is a shortage of trained manpower in that area. The number of electric vehicle (EV) users in the province has increased, but there are no training programs available to produce skilled workers who can repair those vehicles. Establishing spare parts manufacturing companies for EVs could also be an innovative solution, but such ideas, plans, and programs are lacking in the Province. Also the Province can provide skill-based training for individuals who want to start a business or set up an industry, or who wish to work in the industrial sector as skilled workers in various businesses, to inform them about potential investment areas, their pros and cons, as well as the current market and business status.

#### **4.3.3. Forestry**

Lumbini Province’s forest area constitutes 6.75 percent of Nepal’s total land area and accounted for 51.64 percent of Lumbini Province’s total land area in 2024.<sup>27</sup> Lumbini Province has prioritized boosting production of

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<sup>26</sup> Auditor General Report, 2081.

<sup>27</sup> [https://moeap.lumbini.gov.np/media/downloads/Economic\\_Survey\\_2023\\_24\\_Lumbini.pdf#:~:text=constitutes%206.75%20percent%20of%20Nepal's%20total%20land,percent%20of%20Lumbini%20Province's%20total%20land%20area.](https://moeap.lumbini.gov.np/media/downloads/Economic_Survey_2023_24_Lumbini.pdf#:~:text=constitutes%206.75%20percent%20of%20Nepal's%20total%20land,percent%20of%20Lumbini%20Province's%20total%20land%20area.)

forest products.<sup>28</sup> The government's policies and programs for the fiscal year 2023/24 have included several specific activities, to go with its slogan, 'Development of Forest Enterprise, Solution for Unemployment.' The Province has plans for promoting forest related enterprises by offering soft loans to entrepreneurs.

The Province also has plans to work on Ramsar and watershed management. The government aims to produce 2.5 million seedlings to be planted on 300 hectares of land, both in private and government areas, and to generate 1.5 million cubic feet of timber supply.

The policies and programs also propose constructing one pond in every ward, expanding the farming of medicinal herbs, and developing a strategy for water-induced disaster control to make the most out of its resources. It plans to set up 42 forest nurseries in collaboration with local governments.

The Province has two national parks which are the country's tiger conservation areas: Banke National Park and Bardia National Park. Of late, the number of tigers has doubled in the parks.<sup>29</sup> There are reports of tigers attacking villagers in recent times.<sup>30</sup> Tiger killed some villagers while a car even hit a tiger on the highway.<sup>31</sup> The government has promised to continue efforts to minimize human-animal conflict in conservation areas. Besides, it plans to establish treatment centers for wild animals as well as wildlife farming in the Province.

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<sup>28</sup> Lumbini government's Policies and Programs. [https://ocmcm.lumbini.gov.np/media/publications/नेत तथ कर्यक्रम\\_2080-81.pdf](https://ocmcm.lumbini.gov.np/media/publications/नेत तथ कर्यक्रम_2080-81.pdf)

<sup>29</sup> Tiger returns in Nepal; their number now reaches 355. <https://kathmandupost.com/climate-environment/2022/07/30/tigers-return-in-nepal-their-number-now-reaches-355#:~:text=Nepal%20has%20become%20the%20first,according%20to%20the%20latest%20count>

<sup>30</sup> Bardia residents are paying the brutal price of tiger conservation. <https://kathmandupost.com/province-no-5/2022/06/11/bardia-residents-are-paying-the-brutal-price-of-tiger-conservation>

<sup>31</sup> Woman killed in tiger attack. <https://myrepublica.nagariknetwork.com/news/woman-killed-in-tiger-attack-1/>

## **Forest Directorate, Lumbini Province**

The Forest Directorate has been operating to perform the functions specified in the federal and provincial laws related to forests and environment, to play a coordinating role with the Division Forest Office and the Land and Watershed Management Offices, to provide feedback through monitoring and inspection, and to implement the decisions made by the Government of Nepal and the Lumbini Province government, and to support, coordinate and facilitate the implementation of subordinate offices since 29 October, 2018. There are 14 Division Forest Offices, 4 Land and Watershed Management Offices, and 86 Sub-Division Forest Offices under the Ministry of Forest and Environment (formerly the Ministry of Forest, Environment and Soil Conservation). The Division Forest Office (formerly the District Forest Office) and the Land and Watershed Management Office (formerly the District Soil Conservation Office) are under the provincial government, so the Directorate plays a coordinating role with those offices and provides feedback through monitoring and inspection.

Around 51.64 percent of the land in Lumbini Province is covered by forest. According to the Forest Directorate, it employs the second largest number of employees after the health sector. There are 4,052 community forests in Lumbini Province. Lumbini Province is working in the forest conservation model and has done something different from other provinces by working with the World Bank on the project ‘Forests for Prosperity Program’, which aims at sustainable forest management to benefit people who depend upon the forests by creating new job opportunities. As a regular activity in the forestry sector, the Province produces saplings and distributes them for free to support forest development. Lumbini Province brought its Forest Act 2078, Forest Regulations 2079, and related guidelines earlier than other provinces. This has led the Province to implement a conservation model before others, which puts the Province far ahead of other provinces in implementing federalism in the forest sector.

## **Divisional Forest Office**

The Divisional Forest Office aims to conserve and manage forest resources while maximizing revenue collection. It is responsible for improving the status of forests through sustainable forest management, and to meet the needs of the people related to forest products by ensuring a continuous supply of forest products. It also aims to increase revenue, to support the increase in the production and supply of forest products, and to mitigate effects of climate change through the management of private and public lands in the areas far from the forests. Additionally, its responsibilities involve enhancing environmental services by effectively protecting the forest environment and biodiversity, supporting poverty reduction by making the forest sector a means of employment and income generation for local people, strengthening the forest sector by promoting capacity building, making it participatory and inclusive, and carrying out transparent planning and monitoring.

The sector is not without challenges. The Province sees the forest sector as a major source of revenue but it hasn't been able to generate as much as it should. According to the Division Forest Office, Rupandehi, the Province cannot use the forest-based resource on its own. For example, the river-based resource inside the jungle can be extracted with coordination with local government only. This ultimately hinders revenue collection. In most of cases, local governments claim jurisdiction over river-based resources inside the forest. This lack of clarity regarding mutual jurisdiction makes the Province weaker in revenue collection from the forest sector. Other challenges include lack of encouragement in the use of timber, people's fear of legal issues in the use of forest products, less consumption of timber due to economic crisis, open business with India and China, and import of furniture goods and material.

The Province has been attempting to tax community forests, but the step has not been welcomed by community forest users groups. A representative of Charpala Community Forest User Group in Rupandehi complained that all governments try only to impose taxes. Laws made by all three levels

of governments are unclear and that makes things difficult for the user groups. For example, the Provinces imposed a tax rate of 25 percent, the local level imposed 10 percent tax, while the federal government already had a 10 percent tax in place. The user groups refused to pay the 25 percent tax to the provincial government. The Directorate of Forest claimed that due to protests from community forest users groups the provincial government has changed 25 percent tax to a 10 percent service charge. The Directorate claimed it has been collecting a 10 percent service charge, but the community forest representatives say they have refused to deposit any service charge as of now. The Charpala Community Forest User Group representative (also member of FECOFUN, Rupandehi) demanded that the Province should bring programs for fruit farming, tourism development, and forest-based research, and link the forest with entrepreneurship. The provincial government should also encourage the use of timber. The government structures use imported furniture and materials which contribute to the wastage of forest-based resources like timber.

Forest encroachment is another problem. Division Forest Office, Rupandehi, claims that the problem can be solved only if there is no political interference. But due to political interference, encroachment issues never get resolved. There is no guarantee that the forests will not be encroached in the future.

It is difficult for Lumbini Province to fulfill its responsibilities in the forest sector mostly because of a lack of budget. The Division Forest in Rupandehi spends most of its annual budget on patrolling, controlling forest fire, and on sustainable forest management programs.

### **Forest Research and Training Center**

The Forest Research and Training Center (FRTC) is responsible for conducting province-level research and providing training to employees in the forestry sector. But due to a lack of adequate budget and human resources, it has been unable to fully function. Research is the major function of this office, and the Province direly needs its own study and data. But that is not happening. The Director of the Center said that only one third

of the office budget, or around NPR 3 million, is allocated for research, while the rest goes toward training programs. Research is not the priority of the provincial government. There is a need for data management and record management to track the levels of training received by the employees, and the whereabouts of the people who have received trainings, so that it can help in monitoring and evaluation. This structure seems important, since it can add value to the Province's forestry sector through data and evidence, and exploration of potential avenues that can aid in planning and program designing. But the institution is not functioning optimally.

#### **4.3.4. Agribusiness**

Agribusiness sector in the Province involves functioning of layers of structures including the Ministry of Agriculture Land Management and Cooperative, Directorates, Agriculture Knowledge Center, Integrated Agriculture and Livestock Development Office and Agribusiness Promotion Support and Training Center to name a few with major and direct roles.

Lumbini Province Ministry of Agriculture, Land Management and Cooperatives has two directorates to look at agriculture and livestock. The Integrated Agriculture and Livestock Development Office is present in Pyuthan, Rukum, and Bardiya districts. The Ministry has Food Security and Agribusiness Promotion Division, Land Management Division, Livestock Development Division, as well as Planning and Monitoring Division.

As one third of the province's area is the plains, the provincial government has prioritized production of crops. In 2023/24, a total of 1,296,893 metric tons of paddy was harvested in the Province, up from 1,149,336 metric tons in the previous year.<sup>32</sup> In 2023, the share of agriculture in GDP was 23.9 percent, which is expected to reach 24.1

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<sup>32</sup> Economic Survey, 2023/24, Ministry of Economic Affairs and Planning, Lumbini Province. [https://moeap.lumbini.gov.np/media/downloads/Economic\\_Survey\\_2023\\_24\\_Lumbini.pdf](https://moeap.lumbini.gov.np/media/downloads/Economic_Survey_2023_24_Lumbini.pdf)

percent in FY 2024/025. The report shows a steady increase in production of annual crops, such as paddy, pulse, and vegetables, as well as cash crops.

Agriculture is the primary source of income for 66.3 percent of families in Lumbini Province. The provincial government's campaign 'Basis of Agriculture: Improvement in Irrigation' focuses on enhancing irrigation infrastructure across the Province. About 50 percent of arable land in the Province is irrigable. The government offers grants and soft loans to farmers for agribusiness and agricultural activities to encourage farmers and to improve farming techniques.

This wide range of programs focused on agricultural support, market regulation, training, and stakeholder engagement seems adequate in enhancing the resilience and productivity of the agricultural sector when executed effectively. According to the quarterly report (April – June, 2024) of the Ministry of Agriculture, Land Management and Cooperatives, the Ministry had 77 vacancies among its employees. The Directorates are staffed by federal employees, while provincial ministries often lack employees.

The governance of the agribusiness sector is done by CSIs (under the Ministry of Industry, Tourism and Transport) that register and renew enterprises engaged in economic activities. They also provide training for capacity building, along with financial support. There are subordinate structures in the Ministry of Agriculture, Land Management, and Cooperatives that look after the development of the agribusiness sector. This essentially consists of providing specific training to the people involved in the agribusiness sector or intending to do so. One of the major gaps in the pursuit of capacity development, training and encouragement to create entrepreneurs in this sector is the lack of market or the failure to connect entrepreneurs with the market.

## **Directorate of Agricultural Development**

The Directorate of Agricultural Development under the Ministry of Land Management, Agriculture and Cooperatives, Lumbini Province, Rupandehi, Nepal was established on 11 October, 2018. It aims to support

the formulation of policies and plans for the agricultural sector of the entire province, to operate and regulate agricultural development programs, and to carry out administrative management and regulation of subordinate bodies. The directorate is also responsible for enhancing agricultural data and training stakeholders like technicians and farmers and introducing them to modern technology. The Directorate also focuses on conserving local agricultural diversity, managing pests and diseases, and ensuring sustainable development to foster prosperity and improve livelihoods within the Province.

In Lumbini Province the Agriculture Development Directorate oversees 14 offices, comprising 9 Agriculture Expert Centers, 1 Agribusiness Promotion and Training Center, and 4 Agricultural Laboratories. At present, the Directorate's programs and initiatives are focused on supporting the agriculture sector through investments in irrigation, mechanization, promotional programs, processing units, storage buildings, and seed banks, and through training for capacity building and knowledge enhancement of farmers. Most of the projects target cottage and small industries.

There are some distinctions on the functioning of different structures. Training programs in the Province are implemented through Agriculture Knowledge Centers and Agribusiness Promotion Support and Training Centers, and other district-level provincial offices. Knowledge centers provide training of 3 or fewer days, whereas training centers are responsible for trainings that last more than 3 days. Also, the Directorate, through the Agribusiness Promotion Support and Training Center, tries to connect farmers with industry, such as linking maize producers with the feed industry and rice millers with rice producers. Mill owners provide technical assistance to farmers and purchase their produce. Agriculture Development Directorate of Lumbini claims to have focused on the revival and promotion of local crops, such as Kalanamak variety of rice and have achieved success.

The divisions within the Ministry are primarily responsible for policy formulation and direction, while the Directorate focuses more on technical support, monitoring, policy suggestions, and program implementation.

However, there is confusion and duplication of programs at the local levels due to ineffective coordination between local and provincial structures. According to the Director of the Directorate, provincial bodies hold a loose forum called ‘Krishi Bikash Sanjal’ at the local levels to meet with farmers once every three months to discuss the programs. DRCN was also informed that the Directorate follows guidelines formulated by the federal government, as outlined in ‘*Sangh, Pradesh Ra Sthaniya Taha Krishi Kshetra Samanwaya Sambandhi Karyaprakriya 2080*’ (Federal, Provincial and Local Agricultural Sector Coordination Procedures 2023) when formulating and executing their plans and programs. When a province has to distribute subsidies to farmers, they consult with local levels. But otherwise, there is no formal linkage between the federal, provincial, and local-level agriculture programs.

A major gap in provincial program implementation is the lack of follow-up activities. This has led to speculation about effectiveness of provincial programs. For example, there is no responsible authority or mechanism to monitor for the duplication of the programs of three levels of governments. The Directorate expects the Prime Minister’s Agriculture Modernization Project from the federal government to monitor and reduce the duplication of projects to ensure that programs at all three levels are linked and complementary. The lack of activity-based clarity between the three levels of government has led to confusion and duplication of programs.

The major challenge faced by the province is a shortage of technicians in all sectors including laboratories, and other subordinate offices. A representative of FNCCI Lumbini Province claimed that the issue of human resource shortage stems from the mindset of bureaucrats, which has caused problems since the inception of the federal system. High level office bearer said that there is a belief among bureaucrats that being a federal government employee is powerful, which has led to power being concentrated at the federal level rather than being devolved to provinces. At this stage, to strengthen Lumbini Province in the agriculture sector, there is a need to improve the capacity of the available human resources

and update provincial data. Support for Geographic Information System (GIS) implementation is anticipated as the data collected would remain useful for at least another 8 to 10 years. Strengthening laboratory services is another vital need as one of the major roles of the province is to provide technical support.

### **Agribusiness Promotion Support and Training Center**

The erstwhile Regional Agricultural Training Center in Khajura of Banke was dissolved in FY 2018-019 and reinstated as the Agribusiness Promotion Support and Training Center under the Ministry of Agriculture, Land Management and Cooperative of Lumbini Province.

The objectives of Center include:

- Assisting in the transfer of agricultural technology by increasing the knowledge, skills, and efficiency of agricultural technicians and farmers through trainings;
- Conducting training programs to support and complement agricultural development programs determined by the Government of Nepal and the provincial government;
- Enhancing the efficiency of agricultural technicians;
- Bringing qualitative and quantitative improvements in production;
- Increasing income and raising the standard of living;
- Assisting in infrastructure development of agricultural product market;
- Playing a supporting role in agricultural business promotion;
- Increasing non-farm employment by promoting the market arrangement of agricultural products and small agricultural enterprises; and,
- Maintaining a balance between agricultural development and environmental protection, etc.

This center is envisioned to perform tasks like preparing and updating a roster of agricultural entrepreneurs and traders at the provincial level.

Agribusiness Promotion Support and Training Center, Khajura, has a lot to deliver, as its objectives and work details suggest. But the Center itself is not in a state to claim that it is fully capacitated to perform all the responsibilities efficiently. The Office Chief states, ‘There aren’t enough employees at our office. Our job is to provide consultative support and sensitize new entrepreneurs, but we are not able to do so. Most of the time, we are busy providing training. We are not able to identify the real entrepreneurs and provide support to them. Our job is to provide ideas, business plan development support, and proposal development support, but this is not happening. We have made an automation system and provided access to each district with a password, but the system is neither updated, nor fully functioning.’

This Center is the structure in a provincial scheme which is directly related to agribusiness. But its functioning is inadequate. The status of the Centre is a representation of the agribusiness sector in Lumbini Province. It is not functioning optimally because it lacks employees and resource persons, it lacks effective communication and coordination with resource persons, and it lacks motivation among the office bearers. The Office Chief lamented, ‘It would be best if we could link production with the market – this is my job. But our technology and our capacity are outdated. I am also not updated. No one guides us. There is no one to tell us anything.’ The Center has 14 trainings to deliver this year, but there are very few resource persons, making the delivery of trainings challenging and compromising the quality of available trainings.

Despite the challenges, the Center is conducting training and trying to connect farmers and trainees with industries so that their production has a guaranteed market. For example, the center has connected potato farmers with potato chip factories in Belbas and Gaindakot, and maize and soybean farmers with poultry feed industries. The Center also takes farmers for site visits to industries to encourage farming and production as part of their training.

## 4.4. Madhesh Province

### 4.4.1. Organizational Structure

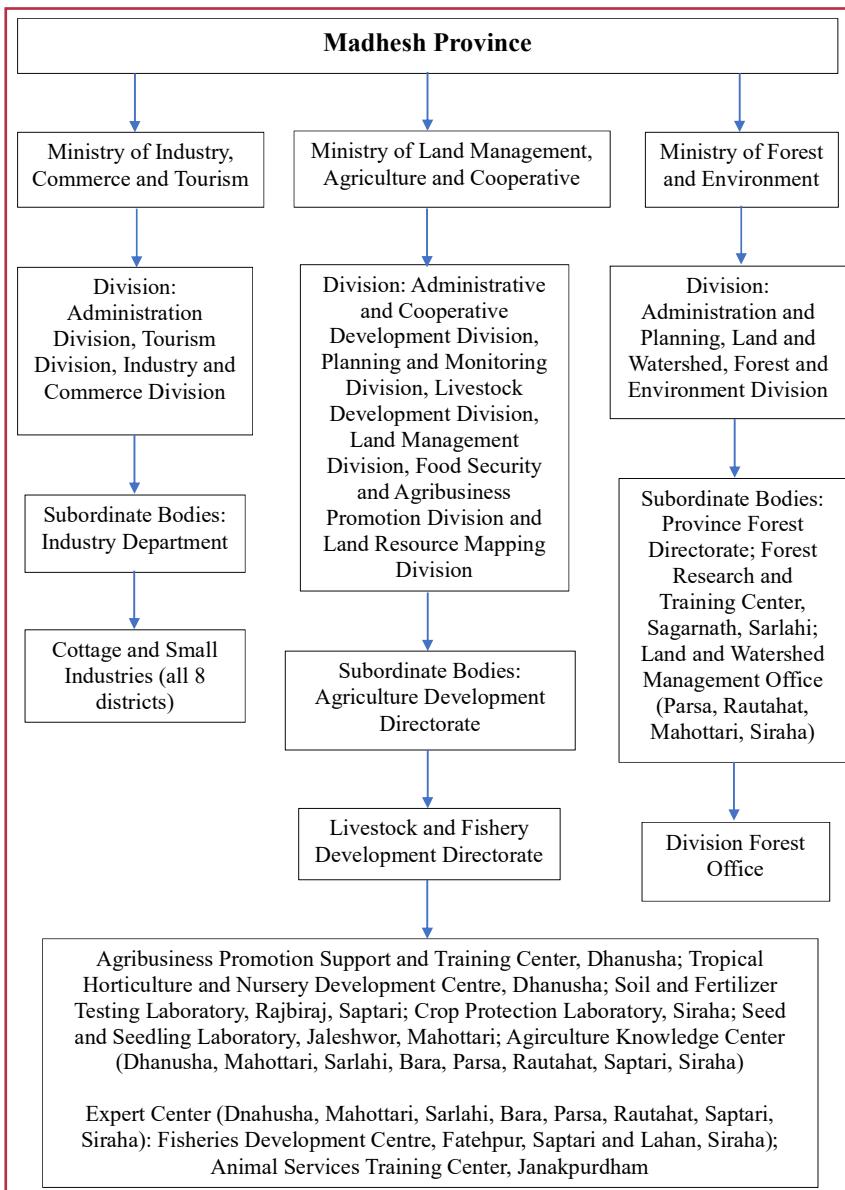
Madhesh Province has constituted three separate ministries to oversee the industry, forestry and agribusiness sectors. The Ministry of Industry, Commerce and Tourism is responsible for economic and tourism development, with divisions for administration, tourism, and commerce. It has subordinate bodies such as the Industry Department and Cottage and Small Industries offices across all eight districts. The Ministry of Land Management, Agriculture, and Cooperative focuses on land administration, food security, agribusiness, and livestock development. It includes directorates for agriculture and livestock, along with agriculture knowledge centers and centers for agribusiness, horticulture, and soil testing, along with specialized livestock expert centers. Similarly, the Ministry of Forest and Environment manages forest conservation, watershed protection, and environmental adaptation through its provincial forest directorate and research centers.

### 4.4.2. Industry

The Ministry of Industry, Tourism, Forest and Environment was established in Madhesh Province in 2018. Later, it was changed into the Ministry of Industry, Commerce and Tourism in 2023. New regulations on the job description of the government of Madhesh Province have assigned 37 responsibilities to the Ministry, including:

- Formulating, implementing and regulating provincial policies, laws, standards and plans related to industry and commerce;
- Registering, issuing permits, renewing and revoking industries;
- Promoting and regulating industrial development and business; and,

## Organogram



- Establishing, operating and expanding industrial zones and special economic zones in the province in coordination and cooperation with the federal government.

After the implementation of federalism, the Directorate of Industry, Commerce and Consumer Interest Protection along with the Cottage and Small Industry Offices in eight districts were transferred to the government of Madhesh Province. The Directorate was formed to regulate and promote the Cottage and Small Industry Offices within the Province. However, the Madhesh Province government decided on 1 August, 2022 to abolish the Directorate of Industry, Commerce and Consumer Interest Protection, after which the Department of Industry was established in Birgunj.

So far, the Ministry has formulated the Provincial Industry Management Act, 2077, Provincial Industry Management Regulations, 2078, and Procedures for Declaring and Operating Industrial Village, 2075. The Ministry has not been able to formulate provincial policies on trade and market competition, standards and plans for mining and mineral exploration, and guidelines for the formation and operation of consumer courts, which are under its responsibility.<sup>33</sup> The Ministry is more focused on delivery on its own and is giving less priority to formulating policies and laws that fall within its responsibilities. In FY 2019/020, the ministry itself carried out work worth NPR 710 million, which should have been carried out by bodies under the Ministry.<sup>34</sup> This not only weakens the quality of work and monitoring, but also creates distrust and conflict between the Ministry and the agencies under it, rendering them irresponsible.

The Madhesh Province Government Policy and Program for the fiscal year 2024/025 has prioritized increasing production and productivity and creating jobs through the partnership of Madhesh government and the private sector – the PPP model. For that, it has emphasized on innovation and youth entrepreneurship promotion programs. Tax laws will be

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<sup>33</sup> Sixth Annual Report of the Auditor General, 2081 (p. 31).

<sup>34</sup> Auditor General's Report, 2078 (p. 45).

amended to create a favorable environment for business operations within the Province. Industry registration will be done online and the Madhesh Investment Conference will also be organized to attract investment. The goal of the policies and programs is stated to emphasize the use of modern technology in agriculture, forestry and tourism in collaboration with entrepreneurs. In the policies and programs, the creation of the Land and Watershed Protection Act has been prioritized to embody the '*Chure Jogau, Madhesh Bachau*' (Save the Chure Range, Save Madhesh) campaign. In addition to emphasizing on increasing the production and productivity of poultry and fish industries, it has also given priority to completing the cold storage facilities currently under construction. Each municipality is expected to establish an Agricultural Excellence Center. A special program for processing, diversification and marketing of mangoes and bananas is also included in the policies and programs.

Economic Act 2024/025 of Madhesh Province has a provision of 50 percent discount on registration when purchasing land to operate plantations and industries including vegetable and animal husbandry, oilseeds, sugarcane, etc. Under the collective farming scheme, in order to increase agricultural production, a 50 percent discount has been provided for registering private land for farm industries.

The industry sector is steered by the Ministry of Industry, Commerce and Tourism. It consists of a division that oversees the administration and management of trade and commerce affairs. It has a subordinate structure, the Industry Department, which manages the Cottage and Small Industries across the eight districts.

However, interviewees were critical about the governing, managing and administering of the industrial affairs in the Province. The President of Janakpurdham CCI says, 'The provincial government is doing nothing for us.' Another official stated, 'The provincial government has almost no jurisdiction over the industrial sector, other than registering and renewing the economic activities that fall under the CSIs. So, we don't expect much from them.'

Federalism has brought new realities too. The members present in the Janakpurdham CCI office agreed that a new crisis concerning the industry sector has arisen. ‘The APF mobilized in the Province has gone rogue. They confiscate the goods and commodities *enroute* to their destinations and submit them to the Customs Department. This creates a cumbersome and exhausting process for the entrepreneurs involved. This has happened even when the goods were produced in Nepal.’ For example, a truck filled with goats getting transported from Parsa to another district was confiscated by the APF and sent to the customs in Birgunj. They further state, ‘Though the provincial government has almost no authority in addressing this problem since the APF falls under the federal government, we expect, at the least, that the provincial government will coordinate on this problem with the federal government. However, even this is not happening.’

Another businessman and a member of CCI from Parsa district expressed, ‘Federalism has hit the business community badly. Politicians go on giving speeches against the people from business and industry sectors. They find it pleasing to the people.’ He highlighted some other issues faced by the industrial sector. ‘The local government has become very precarious for the business community. In the local level elections, politicians running for elections come seeking financial donations. If the ones you refused to support win the election, they will find reasons – or even create reasons – to harass you for as long as they remain in power. They can come for the structure of your home or the structure of your business, or measure land in ways that they find problematic. By the time you seek proper legal aid they go on demolishing your homes or part of it.’

### **Devolution of Relationship between Politicians and Business Sector**

Federalism aims to devolve power, resources, and rights across all spheres of Nepali state and society, which implies that it should impact the behaviors of, and relationships between, stakeholders engaged in the various sectors. However, stakeholders from the business community appear to be reliant on Kathmandu-centric politicians and not engaging with the provincial leaderships. A businessman and CCI member said, ‘We

send our delegations to Kathmandu if an issue arises. The politicians at the provincial level do not have the capacity or authority to bring a change to the issues that affect us.'

However, the President of Janakpurdham CCI differs, 'We have had several meetings with the Chief Minister in different settings. He is practical, and takes an interest in most of the issues facing the Province. Also, we received funding from the provincial government to build a new Janakpur Chamber of Commerce and Industry (JCCI) secretariat building.' Executive Director at Federation of Nepalese Chambers of Commerce of Madhesh Province, corroborates that the Janamat Party-led government is keen to promote the industrial sector. He said, 'The CM has formed a committee under the leadership of the Provincial Planning Commission (PPC) Madhesh Province to create a conducive environment for the industrial sector. However, that has not progressed beyond a few meetings.'

### **Coordination with Entrepreneurs**

The provincial government has completed its first five-year term and is halfway through its second. The first full term was led by Lalbabu Raut of then Janata Samajwadi Party Nepal. After the second provincial assembly elections, two governments were formed in a short period of time, the latest under the Janamat Party since June 2024. Despite this, entrepreneurs in Madhesh Province rely more on the federal government than the provincial government for support in the industrial and business sectors. According to the FNCCI Madhesh Province Executive Director, the provincial government hardly has anything to offer to the industrial sector.

In a focused group discussion with entrepreneurs in Janakpur, participants noted the provincial government's lack of involvement in addressing the technological shifts, global economic impacts, or increasing imports. While Bara and Parsa are major industrial centers, entrepreneurs there perceive the provincial government's role as minimal compared to those in Dhanusha. This perception is tied to regional politics, with Bara and Parsa viewing Dhanusha as a competitor. Some have even demanded to make Birgunj the provincial capital to promote economic activity. The

Chairperson of Bara FNCCI said, ‘The provincial government has no role in industry. It’s entirely managed by the federal government. We always go to Kathmandu, not the provincial government, for discussions.’

Entrepreneurs remain unaware of the provincial government’s potential support in industrial establishment, operation and promotion. Coordination with entrepreneurs and businesses has only begun under the current Janamat Party-led government. While the Ministry of Industry, Commerce and Tourism has started consultations with tourism entrepreneurs, tangible outcomes are yet to materialize. Entrepreneurs urge the government to simplify industry registration, provide employee trainings, and resolve industry-community conflict. They also call for better coordination with the local and federal government to ensure industrial security, streamline import and export, and facilitate cross-border imports of raw materials. Creating a regular platform for dialogue with entrepreneurs across all sectors is also crucial.

### **Budget Formulation and Program Implementation**

The first provincial government was formed in 2017. Since the provincial structure was new in the early years of the government’s formation, it is natural that the work of the provincial government and the ministry was slow and ineffective due to the lack of laws, staff, structure, and experience. However, even after seven years of federalism, the work of the provincial government and its subordinate bodies has not become effective. Since this Ministry and its subordinate bodies have not been able to implement the budget and programs effectively, questions have been raised not only about the Ministry but also about the legitimacy of federalism. The provincial government could have created and practiced laws and policies, used systematic methods in budget and program formulation according to provincial needs, and implemented transparency in good governance and budget implementation. However, from the beginning of the operation of the provincial government, instead of establishing a system for these things, the practices of the government at the federal level were replicated at the provincial level.

For example, the Ministry approves a sector-specific lump-sum budget without approving the program-specific budget, which is called undistributed budget (*abanda budget*). The concerned ministry later allocates this budget to various programs as per their need and interest. This process does not maintain financial discipline, programs are approved only in the areas of accessible communities or individuals, and the program budget does not go to the intended necessary areas. When the budget is disbursed only toward the middle or end of the fiscal year, there is a possibility that programs and projects will not be implemented. Even if they are implemented, there is a possibility that substandard work will be done in a hurry. In the FY 2019-020, this Ministry allocated a lump-sum budget of NPR 630 million only for 6 programs, including historical, religious and cultural tourism infrastructure construction, completion of unfinished tourism infrastructure, other construction improvements, and the Gajendra Narayan Singh Industrial Area Improvement Program.<sup>35</sup>

Allocated budgets aren't implemented effectively either. This raises questions about the need for the budget and programs, and the efficiency of the provincial government's allocation. It also creates doubts about the trust of entrepreneurs in the provincial government. In the FY 2018-019, a budget of NPR 46 million 372 thousand was allocated for the erstwhile Industrial Development Office, Dhanusha. Of this, NPR 23 million 365 thousand was spent, making a progress of 50.38 percent. Under the Small Enterprise Development Program, a program of NPR 18 million 900 thousand was proposed for activities to create new small entrepreneurs, but it was not implemented. Since the program, including technology transfer, was not implemented, its budget of NPR 23 million was also not implemented.<sup>36</sup>

Since proposed projects cannot be implemented, allocated budgets cannot be fully spent. This is due to a lack of employees, inability to formulate work procedures on time, and late delegation of authority to

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<sup>35</sup> Auditor General's Annual Report, 2078, p. 44.

<sup>36</sup> Auditor General's Annual Report, 2077, p. 493.

concerned offices to implement the programs, etc. In addition, it is difficult to know about the progress of the work because Madhesh Province ministries do not prepare a central progress report. According to Rule 35 of the Financial Procedures and Financial Accountability Regulations, 2077, the central body should receive quarterly progress reports from subordinate offices. And, as per Rule 36, the offices should review the physical and financial progress at the office-level and at the central body-level.<sup>37</sup> However, it has been mentioned in the Auditor General's report for each fiscal year that no ministry under the Province has implemented this provision.

The Auditor General's reports state that, on average, only 58 percent of the allocated budget was spent during the first five-year term of Madhesh Province government. Between FY 2018-019 to FY 2021-022, the Ministry of Industry, Tourism, Forest and Environment had a total budget of NPR 12 billion 919 million 400 thousand. Of this, the budget for current expenditure was NPR 5 billion 307 million 500 thousand while the capital budget amounted to NPR 7 billion 611 million 900 thousand. The Ministry was able to spend only NPR 3 billion 487 million 500 thousand (66 percent) of the current expenditure budget and NPR 3 billion 970 million 800 thousand (52 percent) of the capital expenditure, totaling NPR 7 billion 458 million 300 thousand.

## **Industrial Records Management**

The Department of Industry, under the Ministry of Industry, Commerce and Tourism, has not been able to update data on industries registered in the past years. The Department does not have details of industries that have not been renewed and are inactive. Lack of periodic details makes it difficult to regulate industries. The Auditor General's report has suggested

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<sup>37</sup> According to the mentioned Act, the term 'central body' refers to a ministry of the Government of Nepal, a constitutional body, the secretariat of a commission, or any entity responsible for managing central-level functions of the Government of Nepal.

that the Ministry should regularly monitor registration, renewal, etc., and develop an industry management information system.<sup>38</sup>

A representative of FNCCI in Janakpur says that the process of registering, renewing, and terminating businesses should be simplified, and orientation programs should be held from time to time to inform entrepreneurs. He further adds, ‘Many are unaware of the procedures for business registration and closure, which has led to fines for businesses that are registered but not operational. There is a lack of awareness, and no central mechanism to handle all business-related issues in one place.’

#### **4.4.3. Forestry**

The Ministry of Industry, Tourism, Forest and Environment was established on March 17, 2018. In FY 2021/022 the Ministry’s name was changed to the Ministry of Forest and Environment. Under the Madhesh Province Government (Work Division) Regulations, 2023, the Ministry of Forestry and Environment is responsible for 27 functions including:

- Formulating and implementing policies, laws, and directives related to forestry and environmental conservation;
- Regulating wildlife and forest product transportation;
- Managing conservation areas; and,
- Overseeing forest encroachment prevention and fire control.

During its seven-year tenure, various Acts and Regulations have been formulated, such as Province Forest Act 2077, Province Forest Rules 2081, Provincial Forest and Environment Sector Reform Strategic Action Plan 2081, Sustainable Forest Management Procedures Based on Forest Conservation System 2081, Annual Program Operation Procedures 2081, Dissertation Funding Related Procedure 2081, and District Forest Produce Supply Committee (Procedure) Manual 2079.

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<sup>38</sup> Sixth Annual Report of the Auditor General, 2081, p. 31.

As per the Madhesh Provincial Forest Act, 2077, the provincial government manages public forests, including the Chure region, community forests, and conservation areas within its jurisdiction. The Act states that the Provincial Forest Ministry can develop, expand, produce, process, and market herbs and related technologies in coordination and cooperation with the private sector, cooperatives, communities, and local levels.

The Ministry of Forest can grant permission to any local level, community group, or organization to conduct tourism programs in the forest areas without adversely affecting the natural form, flora, and fauna of those regions. To protect and sustainably manage the Chure area, the law provides for the formulation of a provincial-level land use plan. The Act has paved the way for the establishment of the Chure Terai Madhesh Conservation Committee at the province level, which also includes experts in the field. The provincial government can also establish a forest development fund to implement the objectives of the Forest Act and to protect, promote, and manage forests. Madhesh Province has also created the Forest Regulations, 2081, to facilitate implementation of the laws.

Forest is claimed to be the most devolved sector in Nepal's pursuit of federalization. According to a DFO (officer), Nepal District Forest Office (DFO) is one of the most powerful and deeply rooted institutions in existence since it was envisioned in 1961. This used to have both administrative as well as judicial rights.<sup>39</sup> With the advent of federalism, DFO has been devolved to the provincial government. However, the judicial powers are held by the federal government. The forests that are under the provincial government have become contentious about whether they are part of the inter-province forest management. The provincial government finds it difficult to benefit from the resources of the forest.

The Province Environment Act and Act related to Wildlife have not yet been formulated. It is important to formulate necessary policies and laws to ensure effectiveness of the provincial government and offices under its jurisdiction.

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<sup>39</sup> <https://www.forestcarbonpartnership.org/system/files/documents/Annex%201%20-%20Nepal%20draft%20FGRM%20Report.pdf>

According to the Madhesh Province (Work Division) Regulations, 2023, the province can identify provincial-level conservation areas and determine their management methods. Madhesh Province has the smallest forest area among Nepal's provinces. Of its total area of 958,930 hectares, forests cover only 237,636 hectares, occupying 24.78% of the province's land. This is only 3.9 percent of Nepal's total forest area. Notably, 84 out of 136 municipalities in the Province have no forest cover.<sup>40</sup>

The DG of Madhesh Province Forest Directorate says that the largest tracts of forest among the limited forest areas are under the federal government. According to him, a case has been filed in the court after the Sagarnath Forest Area Project was taken by the federal government, and the court case is ongoing. The Chure Forest Area and Dhanushadham Protected Forest is also under the federal government. This has created obstacles in establishing and managing additional protected areas in the Province.

### **Adjudication of Cases**

The Forest Act, 2076 transferred judicial powers from Division Forest Officers (DFOs) of provincial forest directorates to the federal government, leading to dissatisfaction among provincial DFOs. They have not been able to exercise the limited powers granted by the law regarding judicial adjudication. This has negatively impacted the settlement of various cases of irregularities related to the forest sector. According to the Forest Act, 2076, cases punishable by a fine of up to two hundred thousand rupees or imprisonment for up to one year or both should be processed and settled by the DFO of the Government of Nepal in accordance with the Special Court Act, 2059. For example, division forest offices in Siraha, Mahottari, Rautahat, Bara, and Parsa districts had 670 unresolved cases, including 551 from FY 2020-021 and 119 from FY 2021-022. The cases included theft of forest produce, forest encroachment, and wildlife poaching, etc. Some of these cases were more than two years old.<sup>41</sup> According to the head of

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<sup>40</sup> Economic Survey 2080/081, p. 250.

<sup>41</sup> Fifth Annual Report of the Auditor General, 2079.p. 44.

the Madhesh Province Forest Research and Training Center, some DFOs have hesitated to process cases due to legal controversies.

### **Forest Encroachment**

Forest encroachment remains a significant issue, requiring coordination with the federal government. However, enforcement is difficult due to legal constraints, lack of political support, and the Armed Forest Guard's accountability to the federal government rather than provincial authorities.

The DG of the Provincial Forest Directorate has the experience with CDOs making excuses to avoid assisting with removing settlers or enterprises encroaching into forest areas. Despite that, the division forest offices in Siraha and Parsa districts have cleared some encroached areas.<sup>42</sup> It is also the Province's responsibility to utilize the area from where encroaching settlements have been removed. However, the Division Forest Offices under the Province have not been able to plant trees in the encroached areas and utilize them. This is due to the land rights coming under the federal government, which limits the Province's scope in its utilization.

### **Forest Management**

Divisional Forest Offices often fail to prepare action plans for plantation projects, resulting in wasted seedlings. For instance, out of 5.63 million seedlings produced in Saptari, Siraha, Dhanusha, Mahottari, Rautahat, Bara, and Parsa districts, only 3.19 million were distributed.<sup>43</sup> Moreover, community and partnership forests suffer from poor management and declining regeneration rates. Afforestation activities have not been carried out in government-managed forests under the Division Forest Office, Bara. Due to the lack of scientific management in community and partnership forests, there has been a decrease in reproduction. Although four partnership forests have been handed over in Bara district, the demand has not been. Production has remained limited, so the people have not been

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<sup>42</sup> Fourth Annual Report of the Auditor General, 2079.p. 46.

<sup>43</sup> Fifth Annual Report of the Auditor General, 2079.p. 41.

able to feel ownership of the partnership forests. Although 41 community forests have been handed over in Bara, those forests have not been managed according to the statute and action plan. Therefore, the area of community forests has not increased.<sup>44</sup> The Auditor General's report mentions that the records of community forest user groups have also not been managed.

The provincial government faces the challenge of conserving forests as encroachment can only be addressed through collaboration with the federal government. However, the provincial structure finds it difficult to govern the sector given the non-collaborative attitude of the federal government.

#### **4.4.4. Agribusiness**

Madhesh Province is the most agriculture-dominated province, with 574,360 hectares out of the country's total of 3,236,239 hectares of arable land. Farming households account for 63.8 percent of the total population in the Province, according to the National Agriculture Census 2021.

This sector is governed and managed by the Ministry of Land Management, Agriculture and Cooperatives in the Madhesh province. The registration and renewal of entities in the agribusiness is managed by the Cottage and Small Industries, which falls under the Ministry of Industry, Commerce and Tourism of Madhesh Province.

Agriculture is a priority area for Madhesh Province. The Ministry of Land Management, Agriculture and Cooperatives has been working on 32 areas related to agriculture. From market monitoring to land measuring, the provincial government has formulated laws and regulations to promote land use and production of crops.

Paddy is the main crop of the Province. The provincial government has promoted fruits, vegetables, flowers and fodders. Unlike other provinces, fishery and livestock has been a major program in the Province. There is a Directorate for Livestock and Fishery, whereas other provinces have a directorate for livestock only.

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<sup>44</sup> Auditor General's Annual Report, 2077.p. 38.

In order to make the grants and expenses provided by the provincial government for agricultural development systematic and transparent, the Agricultural Subsidy Operation Procedure, 2077, has been formulated. There is a provision in the Procedure that a steering committee can be formed under the coordination of the Secretary of the Ministry of Agriculture to facilitate the process for grant flow.

### **Formulation of Policies and Laws**

The acts, laws, guidelines, procedures, and criteria pertinent to the agricultural sector in Madhesh Province includes the Agricultural Development Program Technical Standards and Operating Procedures of 2081, which provides essential guidelines for agricultural development initiatives. The Agricultural Market Infrastructure Development Program Technical Standards and Operating Procedures, 2080, outline the technical standards necessary for developing agricultural market infrastructure. The Chief Minister Farmer Upliftment Program Implementation Procedure, 2078, aims to enhance the livelihoods of farmers in the region. The Agriculture Sector Subsidy Mobilization Procedure (First Amendment 2077), facilitates the mobilization of subsidies for the agricultural sector. There are also procedures related to providing subsidies for the construction of reservoirs, enacted in 2075, and technical standards and operating methods for the seed production program of food crops, specifically rice and wheat, established in 2079.

The Ministry of Land Management, Agriculture, and Cooperatives is assigned 29 distinct responsibilities under the Madhesh Province (Work Division) Regulations, 2023. The ministry's scope of work encompasses formulation, implementation, and regulation of provincial policies, laws, standards, and plans pertaining to land management; agricultural production; livestock development; food security and nutrition; and, cooperatives within the Province. The Ministry is tasked with developing policies, laws, and procedures for the effective implementation of these responsibilities within its jurisdiction. Since its establishment, the Ministry has developed two Acts relevant to its functions over the past seven years. Additionally,

several standards and operating procedures have been formulated, which include Technical Standards and Operating Procedures for the Livestock and Fisheries Development Program, 2024; Technical Standards and Operating Procedures for the Agricultural Development Program, 2024; Technical Standards and Operating Procedures for the Agricultural Market Infrastructure Development Program, 2023; Procedures for Mobilizing Grants in the Agricultural Sector (First Amendment), 2020; and Procedures for Providing Grants for the Construction of Cold Storage, 2018.

These documents are pivotal in guiding the Ministry's activities and ensuring effective implementation of its programs. During this period, no policy has been formulated to organize the activities of the Ministry. Essential provincial policies, including those related to agriculture, animal husbandry, nutrition, provincial food security, land reform, land use, land consolidation, and government land leasing, are still to be developed. Similarly, the provincial pesticide act, provincial land development act, and other necessary laws and regulations are to be formulated.

According to Madhesh Province (Work Division) Regulations, 2023, the Ministry's primary focus should be on the formulation of policies and regulations, as well as monitoring and evaluation. However, the Ministry has also undertaken tasks typically carried out by subordinate bodies. In the fiscal year 2021-022, the Ministry conducted activities totaling NPR 59 million 64 thousand. This included deep-boring and drill-boring projects, valued at NPR 18 million 140 thousand, to be executed by subordinate offices; a proposal-based grant program worth NPR 29 million 905 thousand, awarded to nine firms; and a special grant program amounting to NPR 19 million 737 thousand, provided to 169 individuals, farmer groups, and firms across eight districts.<sup>45</sup>

## **Implementation of Program with the Allocated Budget**

According to the Auditor General Report 2020, several programs in FY 2018-19, including the establishment of small industries for tomato

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<sup>45</sup> Auditor General's Report, 2022.p. 58.

ketchup, vegetable processing, and fruit juice processing, as well as an agricultural testing laboratory, were not implemented in any district due to resource shortages, time constraints, human resources gaps, and poor institutional coordination. Effective human resource management and timely coordination are essential to avoid such delays. Similarly, the Tropical Horticulture Nursery Development Center failed to execute initiatives like a NPR 13 million grant for fruit farming expansion, NPR 1 million for floriculture infrastructure, and NPR 4 million for fruit plant distribution, resulting in zero progress. Delays in Ministry procedures were cited as the cause. Meanwhile, the Directorate of Livestock and Fisheries Development allocated NPR 659 million 900 thousand to a program targeting youth aged 18 to 40, aiming to promote commercial livestock production, reduce migration, boost incomes, and achieve self-reliance in milk, meat, and fruit production.

However, due to late authorization, only NPR 498 million 780 thousand was spent. According to the Provincial Financial Procedure Act, 2017, all offices under the province are required to obtain authorization by Shravan 15 or beginning of August. Unfortunately, the authorization process has been significantly delayed, resulting in a tendency to spend the budget only toward the end of the fiscal year. This practice has hindered effective quality control and monitoring of work, impacting the overall implementation of the program.<sup>46</sup>

### **Budget Allocation and Expenditure in Five Years**

According to the Provincial Financial Procedure Act, 2017, the Ministry is required to submit a budget with a clear basis for expenditure when proposing its budget. Over the five-year period from FY 2017-018 to FY 2021-022, the ministry's total current expenditure budget amounted to NPR 5 billion 307 million 500 thousand, while the capital budget was NPR 7 billion 611 million 900 thousand. Out of the total budget of NPR 12 billion 919 million 400 thousand, the ministry was able to spend NPR 3 billion 487

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<sup>46</sup> Auditor General's Report, 2020.

million 500 thousand (66%) of the current expenditure budget and NPR 3 billion 970 million, 800 thousand (52%) of the capital expenditure budget, totalling NPR 7 billion 458 million 300 thousand. Over the past five years, on an average of only 58 percent of the allocated budget was spent by the ministry. This under-spending occurred due to the Ministry's unrealistic budget allocations and the weak spending efficiency of the Ministry and its subordinate offices, resulting in unutilized funds.<sup>47</sup>

## **Monitoring**

The progress of budget implementation by the provincial ministry has not met the established targets, and, furthermore, effective monitoring has not been conducted following budget implementation. Several instances of inadequate monitoring have been highlighted in the annual reports of the Auditor General. For example, while cost-sharing grants were distributed by offices under the Ministry to strengthen the infrastructure of farms, machinery, tools, markets, and sheds, the Ministry did not conduct any follow-up to assess whether these grants were implemented effectively.

Additionally, the technical standards and operating procedures of the Youth-Targeted Commercial Livestock and Fisheries Promotion Program, 2019, specify that grants should be properly utilized, with quarterly progress reports submitted to the Office. Despite this, the Veterinary Hospital and Animal Service Expert Center in Dhanusha selected 36 youth-targeted entrepreneurs and provided grants totaling NPR 7 million 935 thousand, with individual grants ranging from NPR 187,000 to NPR 374,000, depending on the nature of the business. However, the utilization of these grants and the corresponding achievements were not evaluated. Similarly, the Veterinary Hospital and Animal Service Expert Center in Rautahat provided a grant of NPR 12 million 43 thousand to support 10 fishery pockets and blocks. However, there was no monitoring to assess whether the grant was effectively utilized or if the targeted objectives

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<sup>47</sup> Auditor General's Report, 2022.

were successfully achieved.<sup>48</sup> Former Vice Chairman of the Madhesh Province Policy and Planning Commission, has stated that corruption has increased due to insufficient monitoring of the schemes operated by the province. Between FY 2017-018 to 2021-022, the Ministry of Land Management, Agriculture, and Cooperatives and its 26 subordinate offices provided grants totaling NPR 1 billion 281 million 60 thousand to farmers, agricultural groups, and others. However, the fifth annual report of the Auditor General has revealed that the Ministry has not evaluated whether these grants have contributed to increased productivity, enhanced farmers' income, or generated employment.<sup>49</sup>

### **Directorate of Agriculture Development, Madhesh Province**

The organizational structure of the Directorate of Agricultural Development under the Ministry of Land Management, Agriculture and Cooperatives was approved by the Council of Ministers of the Government of Nepal on 10 July, 2018, and the Directorate of Agricultural Development was formed. The Directorate is responsible for effectively implementing the programs to be operated for the development and prosperity of the agricultural sector in the eight districts of this province.

Provincial agricultural agencies are tasked with formulating and implementing agricultural policies, regulations, and business plans, and providing administrative and technical support to ensure the effective operation of subordinate offices. They monitor food security, identify key crops for promotion, and support provincial governments in addressing food security challenges. These agencies also develop and implement policies on post-harvest management, crop protection, agricultural mechanization, market infrastructure, and commercial kit development. They collect and update provincial-level agricultural data, ensuring accurate insights for decision-making. Additionally, they oversee the supply and quality control

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<sup>48</sup> Auditor General's Report, 2021

<sup>49</sup> Auditor General's Report, 2022.

of agricultural products, offering guidance, monitoring, and inspections to enhance agricultural productivity and sustainability.

### **Promotion Support and Training Centre, Naktajij, Dhanusha**

The Promotion Support and Training Centre was established in 1991, as a regional agricultural training center under the Department of Agriculture, in the premises of the Agricultural Development Scheme Naktajij. It was intended to make agricultural labor modern, professional and competitive, and increase agricultural knowledge and skills to contribute toward developing agro-based businesses and industries suitable for the region. On 10 July, 2018, after the Constitution of Nepal 2015 was promulgated, the Council of Ministers of the Government of Nepal approved the organizational structure of the Agricultural Business Promotion Support and Training Center under Directorate of Agriculture Development of the Ministry of Land Management, Agriculture and Cooperatives, in all 7 provinces. The Center has been formulating and implementing its programs by considering farmers, entrepreneurs, agricultural technicians, and other stakeholders in these 8 districts within Province as the main service recipients.

The objectives of the Center include:

- 1) Developing necessary skills and capabilities for high-yield agro-businesses by increasing the productivity of the sector, and increasing the quality of the products through the use of modern and advanced agricultural technologies.
- 2) Developing overall social and economic sector of the Province by creating an environment for the proper use and coordination of capital, human resources, and entrepreneurship resources available in the Province.

### **The Practice of providing Subsidy and Capacity Building**

The new structures aim to promote the sector by providing financial grants (*anudan*) and training to people engaged in the agribusiness sector.

The current and potential beneficiaries see the practice of providing grants as essentially an exercise in benefitting people close to the political fraternity. Also, the process of acquiring grants is cumbersome because an ordinary farmer or someone trying to enter agribusiness enterprises cannot successfully complete the documentation process for acquiring grants. A senior government official explained, ‘There are three levels of farmers when it comes to receiving financial aid. First, the small farmers who seek assistance for minor machines and tools that might cost in the hundreds, or at most, in the thousands. For them the process is so difficult that they find it more convenient to just get the equipment on their own. Second, mid-level farmers who are the target group of the grants program, but who are not well-educated enough or well-versed with the process to pursue the grants available to them. However, given the size of the grants available, fake farmers who are capable of creating the required documents claim eligibility to pursue the grants. The third category is for entrepreneurs targeting grants in the tens of millions of rupees. This is done by tweaking policies.’

An employee of the Madhesh Province, the Ministry of Land Management, Agriculture and Cooperative corroborated this story, ‘I call them, the *Jhola Ram*, who always carry a bag full of documents, *Prakriya Ram*, who are well-versed in the bureaucratic process, and Policy Ram, who are capable of tweaking existing policies to meet their objectives.’ When asked about why a farmer must negotiate through a maze of so many procedures, and if that has anything to do with the senior leaderships’ quest to benefit themselves and those in their close orbit, the employee smiled and said, ‘Just as you know it.’

Farmers and people engaged in agribusiness claim they are not receiving the grants, and that those receiving the grants are not genuine farmers or entrepreneurs in the agribusiness sector. However, delving deeper into the question of whether they receive grants, it appears that they have received some amount from the government, which they find inadequate.

## 5. EMERGING PRACTICES AND LEARNINGS

### 5.1. Overlapping Mandates and Conflicting Laws

Provincial governments have to make laws in adherence with the corresponding federal laws, ensuring provincial laws do not contradict or contravene federal laws. However, some legal frameworks seem to be in conflict with each other. For example, the federal Forest Act, 2019, devolves most of the power to the provincial government. However, it retains the judicial rights. This limits the effective execution of the provincial government's functions. Although the province has jurisdiction over several aspects of the industry sector, the district level structure of the federal government has been functioning in the same sectors, which effectively leaves the relevant provincial structure largely obsolete. The Agribusiness sector appears to be an easy entry point for the provincial government to promote economic activities. They have provisions related with providing support in the form of financial assistance, loans with subsidized interests, technologies, and technical know-how. However, all the three levels of government are focused on these areas of the agribusiness sector.

#### A Case of Agribusiness Trainings and Subsidies

A report published by *Kantipur* daily indicates that 32 agribusiness firms were awarded NPR 10 million rupees in grants, and that they do not have much to show as outcomes. Of these 32 firms, 15 are from Madhesh Province, eight from Lumbini and none from Karnali Province.<sup>50</sup>

As an outcome of learning by doing, the trainings provided are not effective in Karnali and Lumbini provinces. Many government officials

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<sup>50</sup> <https://ekantipur.com/News-Folder/2025/02/02/32-the-organization-would-have-agricultural-grants-abuse-most-did-03-33.html>

in Karnali and Lumbini provinces have acknowledged this and are aiming for new modalities of trainings. Many farmers across the three provinces are also becoming aware and demanding new kinds of capacity building mechanisms and support. In Karnali, the Chief of the Agriculture and Livestock Business Promotion Training Center in Birendranagar claimed that they have changed their training modality from indoor to outdoor to enhance the effectiveness of their training. A representative from the Agriculture Development Office, Dailekh, validated the claim of the Center. In Dailekh, 25-30 farmers were selected through the ‘Krishak Pathshala’ program from the Agriculture and Livestock Business Promotion Training Center and provided training on orange farming. The training continued for one year to complete one farming cycle. New technology was introduced in the training, and around 15 to 20 percent increase in yield was documented. Agriculture Development Office, Dailekh, had earlier been more focused on distributing cash subsidies. But now they are focused on practical approaches, like providing assistance on the production basis to encourage farmers. Farmers find it encouraging too and are happy to receive services and training when they are provided in their own farms and localities. Karnali Province is promoting organic farming. Despite the slow progress, the Province still is embracing its slogan of ‘organic province’. An Agriculture Extension Officer, a representative of Agriculture Development Directorate, claimed that they are lobbying with the federal government to provide a budget for organic manure instead of chemical fertilizer.

Karnali has high potential in the medicinal herbs sector. But limited effort has been put toward its promotion and development as an industry to enable larger revenue collection. The Province has kept medicinal herbs in its priority, but it is just words without action. An employee at the Forest Research and Training Center, Birendranagar, accepts that there are a number of rare non-timber forest products (NTFP) in the Province’s forests. But since only a limited number of studies have been done on them there is a huge gap in linking resources with community livelihood. The Province can carry out a survey of NTFP to explore more

revenue generation opportunities. At present, the Province is just focused on collecting and exporting available medicinal herbs only, instead of promoting commercial farming of rare medicinal plants.

## 6. CONCLUSION AND RECOMMENDATIONS

The provinces are an important, equal part among the three levels of government under Nepal's federalism. A number of structures are in place to carry out the responsibilities with which the provincial governments are mandated. Legal frameworks have been created to guide and instruct these structures and their functioning.

Three sectors, viz., Agribusiness, Industry, and Forestry, in Karnali, Lumbini, and Madhesh provinces indicate to some patterns on how provincial governments are functioning, and what factors limit or facilitate their effective functioning. Here are presented some conclusions of the study:

### **On Agribusiness**

- **Capacity Building for Service Delivery:** Structures such as Agribusiness Promotion Support and Training Centers play pivotal roles in supporting farmers and agribusinesses. However, their efficacy is hindered by inadequate capacity, outdated training modalities, and insufficient resources. There is a pressing need to modernize these centers to meet the evolving demands of the agricultural sector. Further, demands for practical training addressed through experiential and on-the-job training to equip farmers and entrepreneurs with practical skills. Theoretical training alone is insufficient to address the challenges faced by farmers.
- **Farmer-Centric Support:** The current design of grants and trainings make it extremely difficult for genuine farmers to access such support from the government mechanisms, including the provincial governments. Small and marginal farmers, women, and agricultural laborers often lack access to farm equipment.

Establishing Custom Hiring Centers in agricultural pocket areas can address this gap and improve productivity. Small-scale support services, such as hoof-trimming for livestock, can have a significant impact on livestock farming. Most small-scale farmers are unaware of available grants, subsidies, and support programs due to a lack of accessible help desks or information dissemination mechanisms. This limits their access to existing support mechanisms.

- **Weak Follow-Up Mechanisms:** Cash grants, which seem to be the most important intervention by the provincial government to promote and strengthen programs across the three sectors studied here, do not seem to be effective since there is practically no mechanism to monitor and follow-up with the cash grant or training provided.
- **Market Access Challenges:** Farmers commercially engaged in agribusiness face challenges in connecting with markets for their products. The lack of market undoes the objectives and efforts made through cash grants, trainings, or even the personal desire to meaningfully engage in the sector. Beneficiaries appear to hold the opinion that if the provincial government cannot support in creating market for farmers' products or connect them with markets, they should not offer trainings.

## On Industry

The management of industrial affairs under the jurisdiction of the provincial governments is limited to small enterprises managed by the Cottage and Small Industries Training Center. This structure falls under the provincial government. The scope of this structure is not limited to any sector, and is divided into various sectors and areas. Agribusiness happens to be the largest sector. Provincial governments have few entry points to show their presence in the industrial sector. One distinct effort has been made by the Ministry of Industry, Tourism and Transport of Lumbini Province where it tried to impose a tax of NPR 1/-per sack of the cements produced there.

The private sector asked the provincial government to provide a genuine basis for imposing the tax, following which the tax was withdrawn.

### **On Forestry**

**Research and Development in Forestry:** The Forestry Research and Training Center (FRTC) has the potential to significantly contribute to revenue generation in provinces through innovative research. However, limited support for research work restricts the exploration of the forestry sector's full potential. They lack the mechanisms to assess their training and track the effectiveness and relevance of the training they provide.

### **Some overarching spheres:**

- **Data Deficiency:** Provinces lack robust and updated data across all sectors, particularly in agriculture. This data gap hampers evidence-based decision-making, policy formulation, and effective resource allocation.
- **Support for Provincial Research and Training Centers:** Provincial-level research and training centers are under-resourced, limiting their ability to conduct regular training programs and research activities. This undermines their role in fostering innovation and skill development.

### **Recommendations and Entry Points**

The study broadly concludes that there is a reasserting tendency of a centralized governance that limits the effective functioning of the provincial governments. This is well recognized by every entity involved, but not much can be done about it by any stakeholder other than key players at the federal level. Nevertheless, many avenues invite interventions, with the possibility of strengthening the functioning of the provincial government, especially in the three sectors dealt within this study. These recommendations can be consolidated into two groups – a set of common recommendations for all the three provinces, and another that has specific recommendations for each province. Lumbini and Karnali Provinces have

similar tried and tested experiences in making provincial government structures function and the challenges that constrained their functioning. But provincial structures in Madhesh are still negotiating for their rights. The most consequential challenge in Madhesh Province is the absence of support from the bureaucratic class for the political class. This indicates that any intervention to strengthen the provincial government in Madhesh has to reinvigorate the relationship between the bureaucratic and the political classes.

## For all Three Provinces

### **Agribusiness:**

**Reforming Subsidy Programs:** The current distributive subsidy programs in agriculture are often inefficient and prone to misuse. Provinces should focus on ensuring the timely availability of fertilizers and seeds. Subsidies can be better utilized by providing these inputs free of cost to genuine farmers. Direct distribution mechanisms should be implemented to ensure that the support reaches intended beneficiaries.

**Monitoring and Surveillance:** There is a lack of oversight on agriculture firms that have received subsidies. Continuous monitoring and surveillance are essential to ensure that the subsidies are used effectively and that the firms are contributing to agricultural productivity. This would help in identifying and addressing any misuse or inefficiencies in the subsidy programs.

**Field-Based Validation:** Provinces should move away from providing support based solely on documents presented. Field-based validation and reality checks must be conducted to ensure that the support reaches real farmers. This would help in targeting the right beneficiaries and ensuring that the support is used effectively.

**Integration with Modern Technology:** Agriculture must be linked with modern technology to improve productivity and efficiency. The province should invest in research and development, promote the use of advanced farming techniques, and provide training to farmers on the use of modern technology. This would help in increasing yields, reducing costs, and improving the overall quality of agricultural produce.

### **Industry:**

**Free Land for Industry Setup:** Provinces must lobby with the federal government to provide free land to setup industries. This would attract investors and encourage industrial growth, leading to job creation and economic development. The availability of land at no cost would reduce the initial investment burden on entrepreneurs and make the province more attractive for industrial ventures.

### **Forestry:**

**Detailed Forest Survey:** The forest sector is highly productive, but there is a lack of accurate data on the exact forest coverage within the provinces. Conducting detailed surveys of forest areas is essential for effective management and utilization of forest resources. This would help in understanding the current state of forests, identifying areas for conservation, and planning sustainable use of forest resources.

**Priority to Community Forests:** Community forests must be given priority to ensure that people from border areas are also included in forest management. Community forestry promotes local participation, ensures sustainable use of forest resources, and provides livelihood opportunities to local communities. By involving people from border areas, provinces can ensure that the benefits of forest resources are equitably distributed, and that forest conservation efforts are more effective.

### **For Lumbini and Karnali Provinces:**

**Support to Create Mechanisms to Record and Analyze Data:** All the three sectors in Lumbini and Karnali provinces revealed and, in some cases, clearly stated that the lack of necessary and timely data puts constraints on their functioning. For example, an official at the Directorate of Agricultural Development, Lumbini Province, clearly stated, ‘We have a lot of challenges that limit our work. However, if we can have a GIS system that gives us timely data, even with the limited human and fiscal resources at our disposal, we can still do much better.’ An official at the Research and Development in Forestry, Lumbini Province, said, ‘All we do is train officers in the forest sector. However, we have almost no mechanisms to keep records and make use of such records to better design our training.’ Likewise, an individual in the private sector in Karnali Province reflected, ‘We talk about localizing the economy, but we don’t have any data about anything. We don’t know how much agricultural and other products we import, and what our capacity for production is. If we want a locally grown economy, we need our own data.’

The lack of data and evidence to inform appropriate policies is one of the most significant gaps existing at the provincial levels. There is realization among provincial stakeholders that if this gap is bridged, despite all other limitations that the provincial governments endure, they will still be able to do more than what they are doing currently.

**Cultivating Market for Agribusinesses:** The support being provided by provincial governments is mostly limited to training farmers, providing them with financial grants to increase the liquidity available, and giving them basic technology in the form of farm implements. Stakeholders claim that most recipients of cash grants do not use them for the purpose for which they are earmarked. However, genuine farmers or entrepreneurs in agribusinesses or industries who succeed in producing agricultural products suffer when the time comes for finding the appropriate market for their products. This suggests that instead of focusing all resources on capacity

building and cash grants, provinces can make interventions that create and connect farmers and agribusiness entrepreneurs to markets.

## **Madhesh Province**

### **Agriculture:**

**Mango Processing Center:** The province has the potential to commercially farm mangoes and meet domestic needs. Among the many things the Province can do in this regard are – processing mangoes into products like juices, dried slices, jams, and purees, etc. The Province can tap into international markets, thereby increasing revenue and creating employment opportunities. This would also reduce post-harvest losses and ensure that farmers get better returns for their produce.

**Promotion of Fish Production:** Madhesh Province is a major producer of fish for domestic consumption. Participants in the validation workshop claimed that the Province currently provides 60 percent of the fish consumed in Nepal. If this sector is properly managed it has the potential to make Nepal self-sufficient in fish production. By promoting fish farming and providing necessary support such as training, technology, and infrastructure, the Province can boost fish production and not only meet domestic demand but also create opportunities for export, thereby contributing to the economy.

### **Industry:**

**Efficient Custom Office:** An efficient custom office at the border is crucial for the timely import of goods. The Province must lobby for the establishment of such an office to facilitate smooth and quick clearance of goods. This would reduce delays, lower costs, and improve the overall efficiency of trade, benefiting both industries and consumers.

**Industry Promotion Board:** The Madhesh Province government should form boards like the Industry Promotion Board, as envisioned by the

relevant Act. Such boards would play a key role in promoting industrial growth, attracting investment, and providing necessary support to industries. They would also help in formulating policies and strategies to boost industrial development in the Province.

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