

**BUDGET REVISION 9  
PROTRACTED RELIEF AND RECOVERY OPERATION**

***“Assistance to Vulnerable Populations Affected by Conflict and High Food Prices in Nepal” PRRO 106760***

	<b>Cost (United States dollars)</b>		
	<b>Present budget</b>	<b>Increase</b>	<b>Revised budget</b>
Food cost	39,808,115	17,436,265	57,244,379
External transport	4,967,961	1,023,714	5,991,675
LTSH	42,065,030	24,067,160	66,132,189
ODOC	9,958,793	6,874,902	16,833,695
DSC	6,898,668	5,468,011	12,366,679
ISC (7%)	7,258,900	3,840,904	11,099,803
<b>Total cost to WFP</b>	<b>110,957,466</b>	<b>58,710,955</b>	<b>169,668,421</b>

**NATURE OF THE INCREASE**

1. This budget revision is to continue assistance to 1.65 million food-insecure people in Nepal affected by conflict, high food prices and drought in 2010. The total number of beneficiaries reached during this protracted relief and recovery operation (PRRO) from 2007-2010 would be 2.9 million. The extension-in-time of this PRRO for one year, up to 31 December 2010, will allow WFP to adjust its strategy from 2011 to reflect the new government priorities expected to become clear in 2010 while continuing to support the peace process. The budget increase covers additional commodities and associated costs for 2010.
2. The overall budget will increase from US\$111 million to US\$170 million, an increase of 53 percent. Landside transport, storage and handling (LTSH), other direct operational costs (ODOC) and direct support costs(DSC) are adjusted to reflect the increased food/cash needs, updated commodity and transportation rates, nutrition activities related to micronutrient powder, food security monitoring activities funded by directed contributions, non-food items, and enhanced quality control measures for the monitoring of activities.

**JUSTIFICATION FOR EXTENSION-IN-TIME AND BUDGET INCREASE**

**Summary of existing project activities**

3. In July 2007, WFP launched PRRO 106760 “Food Assistance for Conflict-Affected Populations in Nepal,” providing food assistance to nearly 1.3 million conflict-affected people in 28 districts. In October 2008, a budget revision increased the beneficiaries to 1.65 million people in 2009. As many beneficiaries do not require continuous food assistance throughout the PRRO period and the needs of new beneficiaries are included after reassessments, the cumulative number beneficiaries of the PRRO between 2007-2009 totalled 2.75 million people.
4. The operation was designed to be consistent with Strategic Objective 3: ‘restore and rebuild lives and livelihoods in post-conflict, post-disaster or transition situations’. The PRRO has

been contributing to Millennium Development Goals (MDG) 1: ‘eradicate extreme poverty and hunger’ and MDG 7: “ensure environmental sustainability”.

## **Conclusion and recommendation of the re-assessment**

5. This PRRO was designed to support the peace process during Nepal’s transition period after a decade-long conflict. Despite gains made in peace process, the political situation remains highly fragile. Less than a year after the new Constituent Assembly took office, the Maoist Government collapsed following the resignation of the Prime Minister. While the political parties remain in dialogue, a period of instability has ensued.
6. Nepal continues to face a complex task of addressing social and gender inequalities, compounded by economic and environmental factors. Security and protection concerns continue, with the re-installment of a parallel judicial system by opposition parties, extortion, and politically-motivated killings and kidnappings. Drought and high food prices come on top of this instability.
7. Nepal is experiencing five consecutive years of drought, which started with the winter drought in the Mid-West and Far-West regions in 2005/2006. The 2009 winter drought was the worst on record: 15 out of 35 precipitation stations either matched, or were lower than, the worst rain levels on record.<sup>1</sup> The latest estimates by the Government indicate that the 2009 summer crop yields are below average, resulting in a national annual cereal deficit of 400,000 mt - one of the highest on record<sup>2</sup> - after a deficit of 133,000 mt in the previous year.
8. The poor crop harvest comes on top of sustained high food prices for over a year. Due to the high percentage of average income spent on food, current year-on-year inflation is nearly 17 percent. Food prices remain high due to regional and national factors including reduced production in the region (India, Vietnam, Philippines and Indonesia), prevailing Indian export restrictions on key foods, continued civil unrest, sustained high transportation costs, and poor road access within Nepal. Prices for key commodities are as high or higher than a year ago and significantly higher than previous years: rice and wheat prices are 3 percent above the high levels of the same period last year; blackgram and musuro (pulses) prices are up by 30 percent and 67 percent respectively compared to 18 months ago, while potato prices have increased by 116 percent.<sup>3</sup>
9. Government agricultural investment has been lacklustre: while agriculture contributes to 33 percent of Nepal’s gross domestic product and employs more than two-thirds of the workforce, government expenditure on agriculture has steadily declined over the last three decades from 30 percent in the 1980s to 5 percent in 2008.<sup>4</sup>
10. Nepal is particularly vulnerable to natural and human induced disasters, including drought, and landslides, and its world rankings, in terms of vulnerability to earthquakes and floods, are 11<sup>th</sup> and 15<sup>th</sup> respectively.<sup>5</sup>
11. Malnutrition statistics in Nepal are alarming. Nearly 40 percent of the population is undernourished. Out of an under 5 population of 3.5 million, 2 million children (58 percent)

---

<sup>1</sup> Department of Hydrology and Meteorology (DHM), 2009

<sup>2</sup> Nationwide cereal requirement for 2009 was approximately 5.3 million mt.

<sup>3</sup> WFP Nepal Market Watch, October 2009.

<sup>4</sup> WFP ‘The Cost of Coping: A Collision of Crises and the Impact of Food Security Deterioration in Nepal’, 2009; WFP Nepal Food Security Bulletin, October 2009; WFP Nepal Market Watch, October 2009.

<sup>5</sup> Nepal Needs Analysis Framework, Inter-Agency Standing Committee (IASC) Nepal, September 2008.

are stunted and nearly half a million (13 percent) suffer from acute malnutrition, with rates exceeding the emergency threshold (>15 percent) in some parts of the country, particularly among poor, landless and marginalized populations.<sup>6,7</sup> The prevalence rate of anemia is 48 percent for children under 5 and 80 percent among children under 2, indicating critically high levels of micronutrient deficiencies. As shown by such bleak figures, Nepal currently possesses some of the worst malnutrition rates in Asia and the world, similar to rates in sub-Saharan Africa. In order to capture updated information on the nutrition situation in the country, WFP Nepal is currently involved in a number of nutrition surveys and analytical activities.<sup>8</sup>

12. Out of the 10.8 million<sup>9</sup> people estimated to be undernourished in Nepal, 3.7 million people are highly to severely food insecure as of November 2009.<sup>10</sup> Of this population, approximately 1.6 million people live in “cluster” areas (as opposed to scattered settlements across the country), mainly located in the Mid-West and Far-West regions, and will be targeted under this operation in 2010. In addition to this PRRO and WFP’s country programme,<sup>11</sup> interventions by non-governmental organizations (NGOs) and the government’s Nepal Food Corporation are also targeting highly food-insecure people.
13. Two mid-term evaluations have been conducted for this PRRO.<sup>12</sup> Preliminary results from the latest evaluation (September-October 2009) indicate an improvement in programme areas from the previous year. More households reported increased levels of income and improved living conditions compared to 12 months before. Fewer households were found to have purchased food on credit and cited decreased severity of the impact of food shortages than those in non-programme areas. Despite these improvements, it is highly likely that these populations would deteriorate towards pre-intervention levels if WFP’s assistance were to be halted at this point.<sup>13</sup>
14. Monitoring reports in 2009 have shown that cash transfers in Nepal have improved people’s livelihoods, increased availability of food (34 percent) and variety of food (29 percent). Women have been empowered by the projects as they are earning cash wages and working alongside men. The major portion of cash (65 percent) has been used for food, followed by education, clothing and medical expenses.
15. Nepal’s decrease in its Human Development Index<sup>14</sup> rank from 142 in 2008 to 144 in 2009 reflects the effects of the high food prices, the international financial crisis, the increase in natural disasters, high poverty rates and ongoing political instability. These factors have

<sup>6</sup> Nepal Demographic and Household Survey (Ministry of Health and Population, 2006): 49 percent of children under 5 are stunted and 39 percent are underweight.

<sup>7</sup> In parts of the Terai region, wasting among children under 5 was 17 percent and prevalence of underweight is 42 percent. Demographic and Health Survey, 2006.

<sup>8</sup> a) UNICEF/WFP nutrition survey in six districts, August-December 2009, b) Nepal Nutrition Gap Analysis (World Bank and USAID with input from WFP, UNICEF, 2009). c) Nepal Living Standard Survey (December 2009-December 2010).

<sup>9</sup> Nepal’s population in 2007 was estimated at 28.3 million (UNDP HDI).

<sup>10</sup> WFP Nepal (FSMAS), October 2009. Food Security Bulletin Issue 25.

<sup>11</sup> The WFP country programme is two activities: food for education, and mother-and-child health care, targeting around 500,000 beneficiaries.

<sup>12</sup> PRRO mid-term evaluations: The 2008 report was published in May 2009 (data collection in October-November 2008). The 2009 evaluation report will be finalized by early 2010 (data collected September-October 2009).

<sup>13</sup> In 2009, 43 percent of surveyed programme households reported increased levels of income as compared to 26 percent of non-programme households in 2009 and 29 percent of programme households in 2008. In 2009, 37 percent of programme households cited improved living conditions as compared to 19 percent of non-programme households (2009) and 26 percent of programme households in 2008.

<sup>14</sup> United Nations Development Programme.

accelerated the decline in food security and 5 million additional people are estimated to have fallen below the poverty line in Nepal during the past three years.

### **Purpose of extension and budget increase**

16. Along with a country portfolio evaluation of its programmes by June 2010, WFP Nepal is in the process of developing its strategic plan for the next three years<sup>15</sup> in accordance with the overall direction of the country's strategic priorities, and a nutrition strategy planned for early 2010. While these processes take place, the prevailing food insecurity situation warrants WFP's continued action, necessitating an extension of this PRRO to the end of 2010. The current design of the PRRO remains appropriate for Nepal's current context.
17. Under this PRRO, WFP is helping communities to rebuild their livelihoods during Nepal's transition period. More emphasis has been placed on responding to natural disasters (drought) and high food prices. Under this budget revision, WFP will continue to provide critical food assistance to the vulnerable communities while simultaneously enhancing their ability to mitigate future shocks. In 2010, there will be a focus on the creation of more productive assets. Capacity within WFP Nepal's Food Security Monitoring and Analysis Unit (FSMAU) will also be transferred to the Ministry of Agriculture and Cooperatives. Additional capacity building outside of this activity will largely depend on the presence of a stable government.

### *Objectives of WFP Assistance*

18. PRRO 106760 will continue to strategically target food assistance for the most food-insecure populations affected by conflict, high food prices and/or natural disasters. WFP will target 1.65 million people in 2010, with the cumulative total number of beneficiaries for the PRRO between 2007-2010 estimated at 2.9 million. The main objective remains under Strategic Objective 1 'restore and rebuild lives and livelihoods in post-conflict, post disaster or transition situations' but a sub-component of Objective 2: 'prevent acute hunger and invest in disaster preparedness and mitigation measures' has been added to support the Government in food security phase classification. Furthermore, a small component is added for Objective 4: 'reduce chronic hunger and undernutrition' for the provision of micronutrient powder, and a contingency is set aside for Strategic Objective 1: 'save lives and protect livelihoods in emergencies'.
19. The operation will continue to provide a social safety net for vulnerable food-insecure populations, while providing economic opportunities and productive assets to restore livelihoods. While the mode of intervention is recovery-oriented, given the protracted nature of food insecurity in Nepal and nutrition indicators at or approaching emergency levels, urgent humanitarian action is required.

---

<sup>15</sup> The WFP Nepal Country Strategy Paper will be in line with the Policy Council Decision Memorandum on the Country Strategies, as signed by the Executive Director in July 2009.

20. The food security and nutrition indicators in Nepal could justify a relief response. However, general (free) food distributions (GFD) in Nepal are not supported under most circumstances by the Government, nor appropriate in the country's context. Apart from isolated cases in emergency responses to flooding, the Government has emphasized that the food-for-assets/cash for assets (FFA/CFA) model is the recommended means for implementation of WFP's activities.
21. Conditional transfers through labour-intensive food/cash-for-assets activities will generate assets for the communities, through the construction of critical rural infrastructure linking farmers to markets, while enabling them to increase their agricultural output for these markets. Communities will also benefit from the creation of basic infrastructure, such as irrigation and drinking water systems, ponds and water harvest tanks, micro-hydro schemes and storage facilities. Small-scale enterprise activities shall establish orchards and cultivate medicinal and aromatic crops to generate income and reduce community vulnerability to food security, climatic variability and food price hikes. In areas prone to floods, disaster risk reduction activities will focus on slope stabilization, soil conservation, and the construction/rehabilitation of dams and river embankments.
22. This budget revision includes an expansion of cash transfers from 230,000 people targeted under cash or a combined food-cash model between 2007-2009, to 360,000 people in 2010. Cash transfers account for 22 percent of the total commodity/cash value under this budget revision.<sup>16</sup> Cash transfer activities will be implemented only in those districts affected by high food prices that have market access. Inaccessible, drought-affected districts in the Upper-Hill and Mountain districts will be supported through food-based interventions.<sup>17</sup>
23. WFP has set up several layers of monitoring for all of its cash transfer activities. Market prices of key food commodities are monitored through the Food Security Monitoring and Analysis System (FSMAS). Programme monitoring is by NGO partners and cross-checked by WFP based on data collected using a pre-defined sampling methodology. Data collected is submitted directly to the country office via a web-based monitoring system for analysis. This system allows WFP and its partners to monitor progress towards set programme targets on a continuous basis.
24. Activities under this operation will be well-timed, well-targeted and will not change the eating habits of the target population. The timing of PRRO activities is normally between planting and harvest periods, at the time of minimum farm work and greatest hunger. The amount of food provided is adjusted to cover a household's immediate consumption needs and enable them to recover from shocks without employing irreversible coping mechanisms.
25. In order to address high levels of micronutrient deficiencies, particularly iron-deficiency anemia, micronutrient powder will be provided to children aged 6-59 months in households participating in food/cash-for-work activities. The micronutrient powder will complement the standard household food basket of rice and pulses. This increased intake of vitamins and minerals will enable optimal physical development of young children during a critical period. The nutrition intervention will be complemented by training sessions for implementing partners, government health staff, and community health workers. These will in turn provide information to mothers and caregivers on appropriate feeding practices and

---

<sup>16</sup> Cash transfer activities are planned in ten Terai and Hill districts at a scale of approximately US\$4.6 million for 360,000 beneficiaries (2007-2010).

<sup>17</sup> 2008 Feasibility Study on Cash Transfers in Nepal (WFP).

encourage behavioural changes in food preparation and sanitation measures. Training in nutrition, health, and sanitation will be developed in collaboration with other organizations with an expertise in these areas. An impact evaluation survey for micronutrient powder is being conducted with a baseline in December 2009 and an endline in 2010

26. In line with WFP's Enhanced Commitment to Women, measures will continue to be taken to (i) ensure that women and men participate equally in identifying activities on the basis of their needs and priorities; (ii) ensure women have equal access to benefits through the activities, that are designed using a participatory approach; and (iii) promote great involvement of women in households' utilization of cash/food wages. At least half of the representatives and executive-level members on community-level user committees will be women.
27. The population benefiting from cash transfer activities (cash or combined food-cash) will increase by 128,600 in 2010 (from about 231,400 to 360,000 people). This population will include part of the beneficiaries who previously received food, as well as people included under the overall PRRO plan who have not yet been assisted due to previous resource constraints.

**Table 1. Beneficiaries by activity type** (see paragraph 18)

Activity	Beneficiaries <sup>18</sup>		
	PRRO (from 2007 to 2009)	Increase	Revised Total
Critical infrastructure and livelihood support (FFA/CFA)	2,551,200 (231,400 people under cash transfers)	164,900 (128,600 additional people under cash transfers with corresponding decrease in food transfers)	2,716,100
Return and Reintegration (GFD)	132,400	0	132,400
Flood-affected populations (GFD/FFA)	70,000	0	70,000
Nutrition intervention (Micronutrient powder)	114,030*	0	114,030
<b>Total</b>	<b>2,753,600</b>	<b>164,900</b>	<b>2,918,500</b>

\* Note: Children aged 6-59 months under the micronutrient intervention will also receive support under food/cash-for-assets activities. Double-counting has been avoided in the table.

28. Food security monitoring at the local level is crucial for early warning, targeting of emergency and recovery interventions and assessing their impact. WFP will build capacity within the Ministry of Agriculture and Cooperatives (MoAC) to adopt the food security phase classification approach through the establishment of food security networks at the district level across the country. The activities are a continuation of WFP Nepal's FSMAU activities that commenced in 2009.

<sup>18</sup> The targeted population in 2010 of 1.65 million is the same as in 2009. However, there are an additional 164,900 beneficiaries in cumulative terms increasing the total number of beneficiaries over the duration of the operation (2007-2010) from 2.75 to 2.9 million beneficiaries. Nearly 60 percent of 2009 beneficiaries were same as 2008. The average household size is 5.6 people.

29. Extended strikes (bandhs) and road blocks, adverse weather conditions, and the continuation of Indian trade restrictions on staple commodities pose severe logistical constraints on WFP's operation. Due to the geographical remoteness, harsh terrain and absence of road networks, a large portion of the Hill and Mountain regions are inaccessible by road and require food delivery by air. Extreme weather conditions during the monsoon and winter seasons pose an additional challenge and require the pre-positioning of food. WFP will strive to ensure that food is pre-positioned whenever possible and will prioritize the most vulnerable beneficiaries at times when resources are limited.

## FOOD REQUIREMENTS

30. Under food-for-asset activities, participants will work for 40 work days on average during the two traditionally lean periods of the year. Households will work for 10 days on average each month. The number of work days each month is based on community consultation and takes into account other economic activities. Each household will receive 40 kg of rice and 5 kg of pulses for every 10 working days (4 kg rice and 0.5 kg of pulses each workday) as compensation for their work. Half a million people affected by the winter drought (only) will work for 20 days under a quick-impact, short-term relief intervention and receive the same daily ration. Participants engaged in the combined food-and-cash for assets activities will receive an incentive of 50 percent cash and 50 percent food. Cash-for-assets participants will receive their entire incentive in cash, equivalent to the food ration provided. The activities will be conducted during two lean seasons.
31. Children from households participating in food/cash-for-assets activities will receive micronutrient powder based on a one sachet per child per day on a flexible schedule. Cooperating partners involved in food/cash-for-assets activities will handle the distribution of the micronutrient powder along with the standard food commodities of rice and pulses and/or cash.
32. The food ration for food-for-assets activities is the only ration scale adjusted due to the inclusion of the micronutrient supplementation for children: rations for other activities are unchanged.

**Table 2. Daily Ration**

<b>Ration per person (plus 1g/day of micronutrient powder to children 6-59 months for families participating in FFA)</b>			
	<b>Rice</b>	<b>Pulses</b>	<b>Kcal</b>
Ration per FFA participant per workday	4,000 g	500 g	
Ration per household member per workday (5.6 members per household)	714 g	89 g	2,875
Ration per household member per day	238 g	30 g	958

The FFA ration is based on 10 working days per month (30 days). This ration would cover about half of a household's monthly food requirements during lean periods: beneficiaries would complement the rations with food obtained from other sources (agricultural production, daily labour, etc).

**Table 3. Food requirements by activity type**

	Food Requirements (mt)		
Activity	Present	Budget Revision Increase	Revised
FFA/CFA	84,868	36,933	121,801
Micronutrient intervention	37	11	48
Total	84,905	36,944	121,859

33. WFP will collaborate closely with relevant line ministries including the Ministry of Local Development, Ministry of Agriculture and Cooperatives and the Ministry of Health and Population, as well as the National Planning Committee and other local government entities.

## **RECOMMENDATION**

34. The Executive Director is requested to approve the additional commitment of food and associated costs, and an extension in time from 1 January 2010 to 31 December 2010 for the protracted relief and recovery operation (PRRO 106760) 'Assistance for Vulnerable Populations Affected by Conflict and High Food Prices in Nepal'.

Approved by:

---

Josette Sheeran  
Executive Director, WFP



## ANNEX I A

BUDGET INCREASE COST BREAKDOWN			
	Quantity (mt)	Average Cost per Ton	Value (dollars)
<b>WFP COSTS</b>	36,944	1589.19	58,710,954.85
<b>A. Direct operational costs</b>			
Commodity			
Rice	32,830	363.73	11,941,159
Pulses	4,103	351.37	1,441,656
Wheat-soya blend	0	0	0
Micronutrient Powder	11	20,000	220,000
Salt	0	0	0
Vegetable oil	0	0	0
Cash			3,833,450
-			
<b>Total commodities</b>	<b>36,944</b>		<b>17,436,265</b>
<b>External transport</b>			<b>1,023,714</b>
<b>Landside Transport Storage and Handling</b>			<b>24,067,160</b>
<b>Other direct operational costs</b>			<b>6,874,902</b>
<b>Total direct operational costs</b>			<b>49,402,040</b>
<b>B. Direct support costs (see Annex II for details)</b>			
<b>Total direct support costs</b>			<b>5,468,011</b>
<b>C. Indirect support costs (7 percent of total direct costs)</b>			<b>3,840,904</b>
<b>TOTAL WFP COSTS</b>			<b>58,710,955</b>

<b>DIRECT SUPPORT REQUIREMENTS (US\$) –Increased budget</b>	
<b>Staff</b>	
International professional staff	2,147,340
National general service staff	1,794,696
Temporary assistance	10,000
Overtime	0
Staff duty travel	449,570
Staff training and development	0
<b>Subtotal</b>	<b>4,401,606</b>
<b>Office expenses and other recurrent costs</b>	
Rental of facility	59,956
Utilities (general)	57,032
Office supplies	99,346
Communication and IT services	230,446
Insurance	0
Equipment repair and maintenance	47,634
Vehicle maintenance and running cost	158,166
Other office expenses	112,103
United Nations Organizations Services	0
<b>Subtotal</b>	<b>764,683</b>
<b>Equipment and other fixed costs</b>	
Furniture tools and equipment	0
Local Security Cost (Planning)	115,600
Vehicles	102,000
TC/IT equipment	84,122
<b>Subtotal</b>	<b>301,722</b>
<b>TOTAL DIRECT SUPPORT COSTS</b>	<b>5,468,011</b>