

SUMMARY

Annual Action Programme 2019 in favour of Nepal for ‘Federalism Support in Nepal’ and ‘Support to the Multi-Sector Nutrition Plan of the Government of Nepal’

1. Identification

Budget heading	BGUE-B2019-21.020200-C1-DEVCO
Total cost	EUR 55.7 million of EU contribution
Basic act	Regulation (EU) No 233/2014 of 11 March 2014 Regulation (EU) No 236/2014 of 11 March 2014

2. Country background

Nepal is one of the world's Least Developed Countries (LDC), situated between China and India. It is the 16th poorest country in the world and the 2nd poorest in Asia (after Afghanistan) in terms of per capita income (World Bank 2018). About 23% of the population of 29.7 million inhabitants is living on less than USD 1.25 a day¹. Nepal is ranked 148th in the world in the Human Development Index (United Nations Development Programme - UNDP 2018).

Nepal, one of the most disaster-prone countries in the world, has recently experienced a major shock with the earthquakes of 2015, and is highly vulnerable to climate change. The earthquakes in 2015 were followed by trade disruptions, leading to a fuel crisis with impact on the entire economy. In addition, the heavy monsoon rains sweeping across South Asia in 2017 affected 1.1 million Nepalese. Reconstruction and resilience building remain therefore important priorities.

The macro-economic outlook for Nepal is globally positive, with an average Gross Domestic Product (GDP) growth rate that reached 6.3% in Financial Year (FY) 2017/2018 (mid-July 2017 to mid-July 2018) from 7.9% reported in FY 2016/2017; inflation under control at 4.20% (y/y) in FY2017/18 - and a raising but still-manageable level of debt (Debt/GDP ratio: 29,7%)². The unemployment rate is 2.7% (2017)³.

¹ “World Bank Group. 2018. Country Partnership Framework for Nepal for the Period of FY2019-FY2023. World Bank, Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/30224> License: CC BY 3.0 IGO.”.

² Source: IMF's South Asia Regional Economic Update note from October 2018.

³ Source: <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=NP>, International Labour Organization, ILOSTAT database. Data retrieved in September 2018.

3. Summary of the action program

1) Background:

Nepal adopted a new constitution in September 2015, with the intent to transform the country from a centralised unitary state into a federal state, and to ensure economic equality, prosperity and social justice.

The Constitution of 2015 officially institutionalised Nepal as a Federal democratic republic with three tiers of governments based on the principles of coexistence, collaboration and coordination. In addition to the federal government, seven provincial and 753 local level governments have been formed with the powers, functions and responsibilities of the state divided among them. The constitution has provisioned a number of exclusive and concurrent powers and duties of governments at the federal, provincial and local levels towards this effect. Nepal's new federal structure is expected to fundamentally transform the nature of service delivery and institutionalize a much more decentralised system of governance to elected local administration in Nepal. In order to support this reform of the state, the Ministry of Federal Affairs and General Administration (MOFAGA) has developed a Provincial and Local Support programme (PLGSP), which intends to reinforce the capacities of the provincial and local levels governments.

Despite progress in poverty reduction, the prevalence of malnutrition remains high. Stunting still affects 36% of children under five years of age, with significant spatial differences. Acute malnutrition among the children age 6-59 months has stagnated over the decades. Gender discrimination, in the form of women's heavy work load, inadequate decision-making power and control over resources, early marriage, early and frequent pregnancies, poor care practices and household food-distribution favouring men, also contributes to malnutrition of women and children. Micronutrient deficiencies remain widespread, with 41% of women of reproductive age and 69% of young children age 6-23 months identified as anaemic. Unless these multiple challenges are simultaneously and sustainably addressed, by strengthening national policies and service delivery systems, malnutrition will continue to restrict economic growth and perpetuate a cycle of poverty. The relevance of the Multi-Sector Nutrition Plan (MSNP) phase II stems from the premise that nutrition can be considered as an essential issue for development, at all levels of society and in a wide-range of sectors. Poor nutrition leads to lower individual earnings, and represents an often invisible but highly significant impediment to the successful achievement of most of the SDGs.

2) Cooperation related policy of beneficiary country:

The 2015 Constitution guarantees the devolution of state powers to the different levels of government through exclusive and concurrent powers and responsibilities as provided in schedules 5 to 9. The 2017 Local governance operations Act defines the functions, duties and rights of the local governments.

Until 2012, government nutrition initiatives were led by the Ministry of Health, without sectoral integration. The MSNP-I (2013–2017) served as the first common results framework for implementing nutrition-sensitive strategies for key sectors, including agriculture, health, education, and water, sanitation and hygiene (WASH). MSNP-II (2018-2022) is the current national policy framework of the government to

address malnutrition. The MSNP is underpinned by the Constitution of Nepal (2015) and the recently approved Right to Food and Food Sovereignty Act (2018). The Constitution specifically recognises the right to health services, food and clean water as fundamental rights of its citizens.

3) Coherence with the programming documents:

The EU Federalism Support programme is financed under sector 3 of the MIP (2014-2020), ‘Democracy and decentralisation’, notably in its specific objective 2: ‘Support to Nepal's decentralisation and state restructuring in the context of a new federal state, to ensure quality service delivery to citizens at local level’ and its specific objective 3: ‘Improve effectiveness, efficiency, transparency and accountability of public finance management and reduce corruption at national and local level’.

Supporting a multi-sectoral approach to address nutrition is in line with the MIP 2014-2020's specific objectives 2 ‘Efficient and sustainable agriculture sector guaranteeing food security in rural areas’ and 3 ‘Improve maternal, infant and child nutrition in rural areas’ of its first focal sector (sustainable rural development). The other two focal sectors of the MIP (Education and Strengthening democracy and decentralization) present also a clear strategic fit with the nutrition agenda.

4) Identified actions:

- Federalism support in Nepal:

The EU Federalism Support programme has adopted a two-way approach, on capacity building of people and institutions through the Provincial and Local Governance Support Programme (PLGSP) and on fiscal decentralization through the Integrated Public Finance Management Reform Programme (IPFMRP).

PLGSP is a capacity-strengthening programme for the public administration and the elected representatives at provincial and local level of governments. It will be led and administered by the Ministry of Federal Affairs and General Administration (MOFAGA). The EU will co-finance the PLGSP with three other development partners (DPs) in supporting PLGSP. The other DPs are the UK Department for International Development (DFID), and the Embassies of Norway and Switzerland.

The overall objective of PLGSP is to contribute to the creation of functional, sustainable, inclusive and accountable provincial and local government. The specific objectives for PLGSP are:

- Objective 1: government institutions and intergovernmental mechanisms at all level are fully functioning in support of federal governance, as per the constitution;
- Objective 2: provincial and local governments (PLGs) have efficient, effective, inclusive and accountable institutions;
- Objective 3: elected representatives and civil servants at provincial and local level have the capacity and serve citizens to their satisfaction.

The EU will also top-up the Multi Donor Trust Fund (MDTF) 2017-2022 for Public Finance Management (PFM) reform, which is administered by the World Bank and jointly funded by other donors: Norwegian, Danish, Australian, and Swiss Embassies, as well as DFID and the United States Agency for International Development (USAID). Under the MDTF, the EU will support the Integrated Public Finance Management Reform Programme (IPFMRP), which provides a sound

strategic framework for supporting the federalism implementation process, with a focus on sub-national levels of government.

- Support to the Multi-Sector Nutrition Plan of the Government of Nepal:

The action will support - through policy dialogue, budget support and capacity building measures - the Government of Nepal in implementing the second phase of its MSNP-II 2018-2022.

The action aims to contribute ‘to improve maternal, adolescent and child nutrition by scaling up essential nutrition specific and sensitive interventions and creating an enabling environment for nutrition’. It will also contribute to better coordinate the efforts of the various stakeholders involved (several government agencies, civil society, private sector and development partners), through an enhanced platform to review the MSNP-II.

Its specific objectives, reflecting the expected outcomes of the MSNP-II, are as follows:

- To improve the well-being of women, adolescents and children in terms of enhanced dietary quality (including diets of infants and young children), increased prevalence of exclusive breastfeeding, and use of improved sanitation and safe drinking water;
- More equitable use of both nutrition specific and nutrition sensitive services, as prioritised by the MSNP-II; and
- The progressive strengthening of an enabling environment (improved policies, plans, governance mechanisms for multi-sectoral coordination at federal, provincial and local government levels) to ensure sustained commitment, resources and progressively enhanced capacities to address the causes of malnutrition.

5) Expected results:

The program aims to reach three outcomes: (i) Government institutions and intergovernmental mechanism at all level are fully functioning in support of federal governance, as per the constitution; (ii) Provincial and local governments have efficient, effective, inclusive and accountable institutions and (iii) Elected representatives and civil servants at provincial and local governments have the capacity and serve citizens to their satisfaction.

The IPFMRP supported by the MDTF foresees three outcomes: (i) better capital budget execution and revenue administration, (ii) enhanced professional capacity of key PFM stakeholders, and (iii) enhanced PFM accountability through strengthened audit function.

The EU Federalism Support programme will contribute across all Sustainable Development Goals (SDGs) with more relevant impact on SDGs 5 (Gender equality), 16 (Peace and strong institutions) and 17 (Partnerships). Furthermore, this prospective support is aligned to the priorities ‘Peace’, ‘Prosperity’ and ‘Partnerships’ of the European Consensus on Development, and notably focuses on democracy, effective and accountable institutions and the rule of law.

The intervention on nutrition will contribute to the progressive achievement of SDGs 2 (Zero hunger) and 3 (Good health and well-being), while also contributing to SDGs 1 (No poverty), 5 (Gender equality) and 6 (Clean water and sanitation).

The transversal nature of the Federalism Support programme, provides an opportunity to effectively engage in policy dialogue with the government on gender and social inclusion issues (GESI), as well as to ensure the effective implementation of government policies and programmes at the local level, following GESI commitments and guidelines.

As confirmed by international evidence, improvement to maternal, adolescent and child nutrition is expected to further accelerate efforts to eradicate poverty and reduce inequalities, thereby promoting sustainable and inclusive growth in Nepal. Given that the root causes of malnutrition include multi-dimensional poverty, inequality and discrimination, the action builds on the commitment of the Commission to adopt a human rights-based approach to development cooperation⁴.

Gender equality is explicit in the action's emphasis on reducing disparities, and improving nutrition priorities at local level. A multi-sectoral approach to tackling nutrition must ensure that the specific needs and roles of women are considered, in order to work towards sustainable and inclusive solutions.

6) Past EU assistance and lessons learnt:

The EU has gained experience from its previous support in governance, notably the Nepal Peace Trust Fund, the Electoral support programme and its current involvement in the MDTF for PFM reform support. EU has been involved at an early stage in the formulation of the PLGSP with MOFAGA and the other DPs involved (DFID, Swiss Development Cooperation, Norwegian Embassy).

EU has a long-term experience in managing budget support programmes in Nepal, notably in the rural development and education sectors. The results achieved through the Federalism Support programme will directly impact the implementation of sectorial national strategies, notably the Agriculture Development Strategy (ADS) and the School Sector Development Plan (SSDP), and facilitate the monitoring of the EU sectorial budget supports in the rural development and education focal areas of the current MIP (2014-2020).

A key insight of a recent review of the on-going EU/ United Nations Children's Fund (UNICEF) support to MSNP is that the existing monitoring and evaluation framework requires considerable strengthening and effective operationalization. In particular, there is a need to better track outcome level indicators and to develop accountability tools at local level to reinforce the political commitment to tackle socio-economic inequalities and marginalization.

⁴https://ec.europa.eu/europeaid/sectors/rights-based-approach-development-cooperation_en and https://ec.europa.eu/europeaid/rights-based-approach-encompassing-all-human-rights-eu-development-cooperation-tool-box-commission_en

7) Complementary actions/donor coordination:

Donor coordination is especially critical in supporting federalism, for which large amount of financial resources and technical capacities are required by the Government of Nepal for implementing the constitutional provisions and reaping the benefits of the federalism.

World Bank, Asian Development Bank, EU, USAID, DFID, Department of Foreign Affairs and Trade (Australia), Norwegian Embassy, Switzerland Embassy and UNDP are the key development partners supporting federalization in Nepal through sector support, programmatic support and provisions of technical assistance (TA). Most of these DPs have adapted and aligned their country support strategies and frameworks to the new context of Nepal. Strengthening the new federal institutions, supporting setting up systems and procedures, and developing capacities of the human resources have been common key features in the development cooperation strategies of major DPs.

EU budget support for the Agricultural development strategy offers significant potential to support the mainstreaming of nutrition-sensitive interventions across various agriculture sector delivery mechanisms. The nutrition action also capitalises on synergies with the EU WAVE project⁵, via efforts to advance local level capacity development for services related to agriculture (home gardens), drinking water, and sanitation, especially for the poorest and most disadvantaged. Donor coordination is ensured through the Development partner food security group.

4. Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures, which shall be based on a specific Communication and visibility plan of the Action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and contribution agreements.

The Communication and visibility requirements for European Union external action (or any succeeding document) shall be used to establish the Communication and visibility plan of the Action and the appropriate contractual obligations.

It is foreseen to use a service contract for communication and visibility.

⁵ The WAVE project (Water, Energy, agriculture: Village Livelihoods Enhancement in the Mid and Far West Regions) is co-financed with the Government of Finland and Government of Nepal.

5. Cost and financing

Federalism Support	EUR 32.35 million
Support to Multi-Sector Nutrition Plan	EUR 23.35 million
Total EU contribution to the measure	EUR 55.7 million

EN



This action is funded by the European Union

ANNEX I

of the Commission Implementing Decision on the financing of the Annual Action Programme in favour of Nepal for 2019

Action Document for Federalism Support in Nepal

<u>ANNUAL PROGRAMME/MEASURE</u>		
This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation and action programme/measure in the sense of Articles 2 and 3 of Regulation N° 236/2014.		
1. Title/basic act/ CRIS number	Federalism Support in Nepal CRIS number: ACA/2019/040-787 financed under the Development Cooperation Instrument	
2. Zone benefiting from the action/location	Nepal The action shall be carried out at the following locations: in the 7 provinces and 753 local governments of Nepal	
3. Programming document	Addendum No 1 to the Multiannual Indicative Programme between the European Union and Nepal for the period 2014-2020 ¹	
4. SDGs	Main SDG: 16 on Peace and Strong Institutions, Other significant SDG: 17 on Partnerships and 5 on Gender Equality	
5. Sector of intervention/ thematic area	Sector 3 of MIP (2014-2020): Strengthening democracy and decentralisation	DEV. Assistance: YES ²
6. Amounts concerned	Total estimated cost: EUR 32 350 000	

¹ C(2018)4741 of 20 July 2018

² Official Development Assistance is administered with the promotion of the economic development and welfare of developing countries as its main objective.

	Total amount of EU budget contribution EUR 32 350 000 of which - EUR 28 000 000 for budget support - EUR 4 350 000 for complementary support			
7. Aid modalities and implementation modalities	Budget Support Direct management through: - Budget Support: Sector Reform Performance Contract - Procurement - Indirect Management with the World Bank (WB) - Indirect management with the entity to be selected in accordance with the criteria set out in section 5.4.1			
8 a) DAC code	15112 Decentralization and support to infra-national administration			
b) Main Delivery Channels	12000 Recipient Government, International Organisation to be defined			
9. Markers (from CRIS DAC form)²	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	X
	Aid to environment	X	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and Women's and Girl's Empowerment	<input type="checkbox"/>	X	<input type="checkbox"/>
	Trade Development	X	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>
10. Global Public Goods and Challenges (GPGC) thematic flagships	N/A			

² <http://www.oecd.org/dac/stats/annex2.htm>

SUMMARY

Nepal adopted a new Constitution in September 2015, with the intent to transform the country from a centralised unitary state into a federal state. The Constitution stipulates three tiers of government: one Federal government, seven Provincial governments, and 753 Local governments (municipalities and rural municipalities). Basic devolution of power is guaranteed to the various levels of governments, through exclusive and concurrent powers and responsibilities.

The EU will support the government of Nepal in this massive reform of the State for a period of 4.5 years, in a two-ways approach: 1) by focusing on strengthening the capacities of the provincial and local governments, so that they can fulfil their mandate and functions as enshrined in the Constitution, and 2) by focusing on improving fiscal decentralisation to give provincial and local governments the means to operate. The EU's total contribution will be of EUR 32.35 million from sector 3 of the Multi-annual Indicative Programme (MIP) 2014-2020.

1) The EU will support the joint donor-Government Provincial and Local Governance Support Programme (PLGSP), which covers the years 2019-2023, through sector budget support (Sector performance reform contract) for a total amount of EUR 28 million. This programme aims to strengthen the capacities of elected representatives and the public administration, in order to create functional, sustainable, inclusive and accountable provincial and local governments. The PLGSP will be led and administered by the Ministry of Federal Affairs and General Administration (MOFAGA) and co-funded by the UK Department for International Development (DFID), Switzerland and Norway. In addition, the EU's support entails EUR 2 million as complementary measures for the technical assistance service provider (TASP) to the PLGSP, providing technical support to provincial and local governments.

2) The EU will also support the Integrated Public Finance Management Reform Project (IPFMRP), as initiated by the Multi-Donors Trust Fund (MDTF) administered by the World Bank (WB), with an amount of EUR 2 million through complementary measures. This action entails strengthening the effectiveness of selected public finance management institutions and related procurement, systems and procedures at the three different levels of governments.

1. CONTEXT ANALYSIS

1.1 Context Description

Nepal is a Least Developed Countries (LDC) situated between China and India. It is the 16th poorest country in the world and the 2nd poorest in Asia (after Afghanistan) in terms of per capita income (World Bank 2018). The country is ranked 148th in the world in the Human Development Index (UNDP 2018). GDP per capita has increased and is expected to reach USD 1,143 in 2019. The poverty rate has steadily decreased over the years, it varies across the country, being particularly high in rural areas and lower in urban areas. In most parts of the country, economic opportunities are limited, as a result, migration, in particular of youth, has dramatically increased in the recent years.

Nepal is an EU like-minded partner for climate action as the Himalayan mountain range has a profound effect on the climate of the South-Asian region. It is also important to note that Nepal is one of the most disaster-prone countries in the world. The devastating earthquakes in 2015 were followed by trade disruptions leading to a fuel crisis, which impacted the entire economy. In addition, the heavy monsoon rains sweeping across South Asia in 2017 affected 1.1 million of the Nepalese population.

In accordance with its geographical diversity, Nepal is also extremely diverse in terms of ethnicity, languages, cultures and religions. Indigenous peoples comprise 35.8 percent of the total population, while Nepal has legally recognized 59 indigenous nationalities, referred to as Adivasi Janajati. While today the country wishes to embrace its diversity, gender and social disparities are still prevalent. For example, the National Living Standard Survey (NLSS) 2011 found that 40% of women in Nepal were illiterate, in comparison to only 14% of men, and that 60% of Terai women were illiterate compared to 32% of women in the hills and mountains.

Nepal has gone through major political changes, transition and transformation for the last three decades. Major milestones of such changes include: popular movement and restoration of multi-party democratic system (1990), the signature of the Comprehensive peace accord (2006) putting an end to the armed conflict (1996-2006), political transition and promulgation of a constitution, introducing a federal system of governance (2015).

The constitution officially institutionalized Nepal as a federal democratic republic with three tiers of governments based on the principles of coexistence, collaboration and coordination, with clear mandate to address the inequalities and discriminations. In addition to the federal government, 7 provincial and 753 local level governments have been formed with the powers, functions and responsibilities of the state divided among them.

Besides the constitution, which clearly envisions Nepal as an inclusive state and guarantees the right to equality for all its citizens, Nepal is also a signatory to various international conventions, among others CEDAW, ILO Convention 169 on the Rights of indigenous peoples and therefore legally committed to gender equality and social inclusion. Accordingly, the government of Nepal's (GoN) gender equality and social inclusion (GESI) policies and guidelines have been adopted as of 2017 in seven sectors. While implementation of those policies is slow and weak, strides forward have been made. For example in 2014, only 10.6% of the civil servants were women, while following the 2017/18 elections, women now hold 40.79% of political positions in the country, which is unprecedented in Nepal's political history and also admirable in the global context. In particular at the local level, a total of 14,349 women now represent local constituencies.

High socio-economic growth, including job creation, and bringing down poverty from 23% to less than 5% of the population, is a top priority for the Nepal's new government. Federalism is seen as a means of achieving inclusiveness by bringing governance closer to the citizens and of realizing the desired socio-economic growth through effective service delivery. Therefore, the effective implementation of federalism at this point in time represents a key opportunity for Nepal's sustainable development.

1.2 Policy Framework (Global, EU)

The EU Federalism support is a key intervention of the Addendum n°1 to the MIP 2014-2020, which confirmed sector 3 “Strengthening democracy and decentralization”. It is consistent with the principles and spirit of the EU Global Strategy 2016, especially with the priorities related to ‘State and Societal Resilience’, and ‘Global Governance for the 21st Century’. It is also in line with the integrated approach to conflict and crisis, the 2017 Joint communications on resilience, the Gender Action Plan (GAP) II, the Council conclusions 2017 on indigenous peoples.

Support to decentralisation through budget support is fully in line with the 2013 Commission Communication “Empowering local authorities in partner countries for enhanced governance and more effective development outcomes”³.

The Commission Communication "The future approach to EU budget support to third countries"⁴ highlighted already the need to strengthen the capacity of local authorities to act as an essential component for the state domestic accountability system, thus contributing to enhance government's capacity to deliver services to final beneficiaries.

The budget support has been designed in conformity with the 2016 EU methodological note on "providing EU budget support in decentralised contexts".

It will contribute across all SDGs with more relevant impact on SDGs 5 (Gender equality), 16 (Peace and strong institutions) and 17 (Partnerships). Furthermore, this prospective support is aligned to the priorities 'Peace', 'Prosperity' and 'Partnerships' of the EU Consensus on development and notably focuses on democracy, effective and accountable institutions and the rule of law.

1.3 Public Policy Analysis of the partner country/region

The 2015 Constitution describes the new structure of the state mainly in its section 5: Structure of the state and division of state powers and annexes 5, 6, 7, 8 and 9 (exclusive and concurrent powers of federal, provincial and local level). In addition several acts or laws have been enacted to facilitate the implementation of the reform: Local Governance Operation Act 2017, National Natural Resources and Fiscal Commission Act 2017, Inter-Governmental Fiscal Management Act 2017, Staff Adjustment Act 2017.

The implementation of the Federalism reform will be mainly done through the Provincial and Local Governance Support Programme (PLGSP). This is a national sectoral programme from the Government that spans 2019-2023, and is co-funded by development . The cost of PLGSP is estimated at EUR 100 million with a contribution of about EUR 27 million from the government of Nepal and EUR 73 million from Development partners³. The programme will provide an overarching framework to all sub-national governance programmes in Nepal. The programme will be led and administered by the Ministry of Federal Affairs and General Administration.

As the most recent and crucial step in the transition process, the new federal government has prepared the first full federal budget in financial year (FY) 2018/2019, with separate Grants book for provincial and local governments, as per the provisions of the constitution and the intergovernmental Fiscal management Act, 2017. Similarly, both the provincial and the local governments have enacted their first full year budget to be financed by both fiscal transfers from the federal budget and from their own resources.

Given the limited revenue bases assigned to provincial and local governments (PLGs), and their weak revenue generation and administration capacity, the resultant gaps at the PLGs will have to be met primarily through fiscal transfers by the central government. There is an apprehension that high

³ COM(2013)280

⁴ COM(2011)638

³ The donors to PLGSP are DFID (EUR 23.45 million), Norwegian Embassy (EUR 17.55 million), Switzerland cooperation (EUR 1.75 million) and EU (EUR 30 million).

fiscal dependence on the central government will adversely affect the quality of devolution and autonomy of PLGs.

Three acts endorsed by the Parliament provide the legal framework for revenue mobilization in Nepal: (i) Local governance operations Act 2017, which outlines the financial jurisdiction of local governments and defines the distribution of authority for policy formulation, determination of tax rate, and collection of taxes; (ii) National Natural Resources and Fiscal Commission (NNRFC) Act 2017 to manage the inter-governmental fiscal transfers to address vertical and horizontal imbalances between federal and PLGs and (iii) Inter-governmental Fiscal Management (IGFM) Act 2017, which specifies sharing of PLGs in VAT, domestic excise duty, and royalties.

EU Federalism support contributes to address some major challenges in the implementation of the federalism process, namely: inter-governmental coordination and implementation, sub-national government systems and procedures, institutional capacity of sub-national governments, empowerment of elected officials and capacity development of provincial and local level government staff, ensuring accountability of local governments to the citizens at the grass-root level as well as strengthening the public finance management systems to reinforce accountability in the use of resources.

The support is aligned to the public policies and legal frameworks of the GoN, and consistent with Nepal's overall long-term goal of 'Prosperous Nepal, happy Nepali' and more specifically its priorities under Envisioning Nepal 2030, whereby the government of Nepal seeks to achieve all the Sustainable Development Goals (SDGs) and become an inclusive, equitable, and prosperous middle-income country by 2030.

1.4 Stakeholder analysis

Government of Nepal

Supporting Federalism in Nepal involves collaboration with the governments, ministries and public agencies at all three levels. Key stakeholders and their roles in federalism include:

Federal Level:

Ministry of Finance (MoF): foreign aid policy formulation and execution, foreign aid coordination, development cooperation agreements with development partners, federal fiscal policies, federal budget preparation, inter-governmental fiscal transfers and management, and public finance management (PFM). The main functions of the MoF in relation to the fiscal federalism are coordination among the federal and PLGs agencies, drafting of fiscal laws and regulations, and preparing necessary criteria and basics for the implementation of Inter-Governmental Fiscal Management (IGFM) Act.

Ministry of Federal Affairs and General Administration (MoFAGA): coordination of federalization of the governance and public administration, deployment and adjustments of civil servants, development of model acts and laws required by the three levels of governments. MoFAGA is mandated for coordination, facilitation, and institutional development support to local governments. It also fosters inclusive development by promoting peoples' participation in local governance.

National Natural Resource and Fiscal Commission (NNRFC): NNRFC is one of the key actors in federalism implementation with roles in policies and strategies for sharing natural and fiscal resources among the governments. The NNRFC is responsible for determining respective shares of revenue among the federal government and sub-national governments.

Office of the Auditor General (OAG): key stakeholder in ensuring financial accountability through external audits at all three levels of government, PFM related roles, management of fiduciary risks, capacity development of accounting and auditing system at sub-national level.

Financial Comptroller General's Office (FCGO): GoN's PFM responsibilities, management of fiduciary risks, treasury control and management.

National Planning Commission (NPC): is headed by the Prime minister and is the advisory body of the GoN for formulating a national vision, periodic plans and policies for development. It assesses resource needs, identifies sources of funding, and allocates budget for socio-economic development. It serves as a central agency for monitoring and evaluating development plans, policies and programs.

Provincial Level:

Office of the Chief Minister and Council of Ministers (OCMCM): overall responsible for the exclusive and concurrent powers of the state provisioned in the schedule 7 and 8 of the constitution, respectively. It is the newest state structure in the federal governance system. PLGSP steering and coordination role is assigned to the provincial governments in all 7 provinces.

Sector ministries (provincial level): 7 ministries with key role in sector coordination. New institutional set-up, many structural, procedural and systemic supports are needed to enhance their effectiveness.

Province Treasury Comptroller's Office (PTCOs) – new PFM agency at provincial level, provincial treasury/fiscal management and control.

Provincial Centre for Good Governance (PCGG): restructured offices of Local Development Training Academy (LDTA) in each province, key role in PLGSP for capacity development of sub-national governments (staff and elected representatives).

Local Level:

Local level governments: closest to the communities, democratic representation, inclusive governance and service delivery (including the sector results), the 753 municipalities are the key stakeholders in making federalism a success. Support to federalism will contribute to strengthening of decentralised public administration, fiscal decentralisation and capacities of the elected officials and staff at the local levels.

Private Sector and Civil Society Organizations (CSO)

Private Sector:

Complementarities and contributions of private sector organizations in delivery of sector results and services by the government are important and crucial for achieving Nepal's development goals. In the context of federalism support, the private sector organizations (research and training institutions, consulting firms, etc.) will provide capacity development and Technical Assistance (TA) services to the governments at all levels. Furthermore, they will be the major driver of economic growth at province level and should play a central role in service delivery in sectors like tourism, urban and peri-urban transportation, and waste management.

Civil Society Organisations (CSOs) and Non-Governmental Organisations (NGOs):

CSOs play a key role in mobilizing and representing voices of people, especially the poor, women, indigenous peoples, Dalits and other traditionally excluded groups, which is an equally important contribution towards the fulfilment of the commitments of the GoN for inclusive development

through ensuring civic participation in all spheres of public engagement. PLGSP has considered the role of CSOs as one of the important components in its results framework (through promotion of community engagements and public accountability). Furthermore, CSO could also play an important role in social service delivery at local level, including in remote areas.

1.5 Problem analysis/priority areas for support

1.5.1 Problem analysis

The Constitution of Nepal 2015 provides a historic opportunity in promoting inclusive development and democratic accountability through provisions for institution building and deepening of good governance practices and reforms at the federal, provincial and local levels. Despite such strong constitutional and legal framework, there are challenges that cut across the different dimensions of the federalism, including inclusive governance, public administration, fiscal decentralisation, PFM and service delivery. The main challenges identified under PLGSP are:

- *Insufficient inter-governmental coordination and relationships*: Necessary enabling legislation, structures and systems and capacities at federal, provincial and local government entities are yet to be created for a working inter-governmental relationship based on the principles of co-existence, cooperation and coordination.
- *Limited systems and procedures for strong sub-national governments*: the systems and procedures for effective governance at provincial and local level are yet to be fully established. The provincial and local governments are in need for appropriate legislative, regulatory and administrative guidance from federal level to effectively operate as whole of the government entities.
- *Weak institutional capacity at sub-national level*: provincial and local governments need to improve technical skills of their human resources to cope with the new governance and administrative context, and change of mind-set. This weak capacity at subnational level is likely to constrain the management of public funds at the local level, and thus have an immediate negative impact on service delivery. Similarly, the local elected officials require support in empowering them to perform their constitutional functions as defined in the 2017 Local Governance Operational Act (LGOA). In these contexts, the provincial and local level governments require sustained and intense institutional capacity development support.
- *No established PFM processes yet for intergovernmental or subnational-level PFM activities*: This lack of systems, processes, and capacity at the subnational level is likely to pose an immediate risk to the use and management of resources. Block grants are quarterly released from federal level to the bank accounts of the concerned provincial or local level, which will further delegate to spending units according to their own system. In addition, for their budget, they may have their own source of revenue that they can manage themselves with their own annual plan and programme.
- *Low level of community participation and accountability*: the link between citizens and their newly elected local governments for meaningful participation and accountability is the backbone for success of the federal system of governance. In the absence of adequate federal or provincial legislation, guidelines and institutional capacities, local governments cannot perform their constitutional function as responsive and accountable governments.

1.5.2 Priority areas for support

The EU support to federalism will focus on:

- *Supporting Government of Nepal for federal devolution:* Commitment to the federal devolution of state powers as provided in the schedules of the constitution and the legislation enacted for the purpose by Parliament will be emphasized. Needs based capacity development support to the staff and elected representatives;
- *Supporting GoN's efforts for ensuring transparency and accountability in sub-national governance:* the EU Federalism support will promote transparency in the governance process, i.e., decision-making, formulation and implementation of plans, programme and budget, coordination between all agencies;
- *Supporting local governments in improving service delivery* in all sectors and notably in other sectors already supported by EU (agriculture, education, nutrition).
- *Ensuring complementarity of interventions with the other EU cooperation and development supports;*
- *Strengthening the effectiveness of selected PFM institutions and procurement institutions, systems, and procedures at the federal and subnational levels.* Ongoing and additional support to the PFM reform through the Multi-Donor Trust Fund (MDTF) is expected to improve fiduciary risk management;
- *Supporting public institutions at all level for mainstreaming gender equality and social inclusion (GESI):* PLGSP will support Nepal's public institutions for mainstreaming GESI by improving governance systems, procedures, planning, execution, monitoring and evaluation of development interventions;
- *Supporting financing local initiatives through the innovative partnership fund where local authorities will implement project related to local investments.*

1.6 Other areas of assessment

1.6.1 Fundamental values

Nepal is a young democracy still consolidating the comprehensive peace accord of 2006. It has ratified many of the key international human rights instruments and abolished the death penalty. Citizens are more able to exercise their political freedom and political will as well as economic rights than a decade ago, but little progress has been achieved in enhancing accountability over the provision of state services and public goods notably at the local level.

The 2015 Constitution guarantees key fundamental rights, including freedom of press, opinion and expression, as well as the right to food and right to information. However, further enhanced implementation capacity is key for the full realisation of these rights.

Although Nepal has independent rule of law institutions, they are underperforming notably due to a lack of sufficient resources. Case backlogs and enforcement of court decisions remain critical issues.

Issues of caste-related, ethnic and gender discriminations related to the country's culture and traditions still exist, though much has been done to reduce their impact, including through EU funded activities, for instance through the European Instrument for Democracy and Human Rights (EIDHR). In rural areas, the practice of bonded labour has been abolished, but the people previously in this situation still struggle to make a living and have a very weak social and economic position.

Gender inequalities associated with land tenure persist and much remains to be done to tackle traditional practices which may continue to disadvantage women who may not be aware or able to effectively claim for their legal rights.

The government of Nepal struggle to operationalise the rights-based approach. Although there is a Right to Information (RTI) Act, to date CSOs do not appear to have been important drivers of the ‘demand’ for information and the opportunities to enhance social accountability remain somewhat restricted. More broadly, civil society itself suffers from lack of effective coordination, a weak financial base, limited capacity and low levels of political visibility.

1.6.2 Macroeconomic policy

Nepal’s economy has been rebounding since the 2015 earthquakes, with economic growth reaching 7.9% in FY 2016/17 and 6.3% in FY 2017/18, supported by political stability, more reliable electricity supply, construction, record tourist arrivals, rising private consumption and government spending. Inflation has remained low throughout 2018, at 3.9% in September 2018 (y/y). The risks are broadly linked to the rising fiscal deficit, which reached 6.5% of GDP in FY 2017/18, and widening current account deficit, which reached 8.2% of GDP.

The authorities pursued in 2017/18 their domestic revenue mobilisation efforts, with tax revenue rising to 21.9% of GDP from 21.0% of GDP in FY 2016/17. This however was not sufficient to compensate for an extraordinary surge on the expenditure side, with total expenditures soaring to 32.0% of GDP from 27.5% in the previous year. The fiscal deficit thus rose to 6.5% of GDP, from 3.1% in 2016/17, with public debt ratios deteriorating by 4 points of GDP and official reserves falling from 8.3 to 7.2 months of imports.

On the expenditure side the government reckons that expenditures related to federalisation will need to increase by 2.2 points of GDP in FY2018/19, with revenue-sharing from federal to subnational level kicking-in at 4.6% of GDP. The deficit is oriented towards 5.0% of GDP, while public debt should continue rising to 33.1% of GDP (still in the Debt Sustainability Assessment (DSA) low risk bracket) and official reserves deplete further to 5.7 months of imports. On the face of such an expansionary fiscal policy, the IMF warns in its recent Article IV consultations that fiscal expansion exceeds the economy’s aggregate absorptive capacity and is not well anchored in a realistic Medium Term Expenditure Framework (MTEF) to ensure quality and fiscal and external sustainability.

The WB Nepal development update of November 2018 recommends the GoN to more closely engage with the private sector as financing needs far surpass available public resources and available donor funding. It also stresses the importance of implementing PFM reforms such as public investment management to improve capital budget execution, and establishing proper PFM systems at the subnational level to seize on the transformational opportunities of implementing federalism and crowd in private investment.

1.6.3 Public Financial Management (PFM)

Key progress achieved so far in implementing PFM reforms include: (i) drafting and submission to Parliament of key pieces of legislation (Financial procedures and Fiscal responsibility Act, Audit Act, Public procurement Act); (ii) enhancing the institutional framework for fiscal decentralisation (nomination of a head for the National Natural Resources and Fiscal Commission (NNRFC), activation of the Intergovernmental fiscal council, deployment of accountants in all new local governments, gradual rollout of the Sub-national Treasury Regulatory Application (SuTRA) Information Technology (IT) system for budgeting, accounting and reporting of local governments, establishment of provincial treasuries and confirmation of District treasuries; (iii) enhanced budget transparency (publication of the MTEF, publication of whole-of government financial statements for

FY2017/18, improved oversight by the Public accounts committee); (iv) strategizing towards integration of IT financial management systems; (v) ensuring strong revenue mobilisation through sustained tax policy and tax administration reforms.

Local revenue mobilisation will be challenging, as it is expected to add 1.2 point of GDP to tax revenue ratios. Indeed, in line with the Local governance operation Act, subnational governments also have locally shared revenues. Registration fees for houses and land, advertisement tax, vehicle tax and entertainment tax are shared rights of the provinces and local units. Service fee, registration fee, fine, tourism fee and royalty received from natural resources are concurrent powers of the federal, provincial and local units. In case of shared jurisdiction, the province keeps 60% of the taxes it collects and transfers 40% to the local divisible fund. Likewise, when the local level collects taxes, it keeps 60 percent and transfers 40 percent to the provincial consolidated fund. The funds are divided among the different units based on the formula set by the NNRFC.

1.6.4 Transparency and oversight of the budget

The main reference documents for budget transparency and oversight include the following: Budget speech 2018/19, Executive budget proposal 2018/19, Enacted budget 2018/19 (Red book) of the Federal level, Mid-year budget execution report, Audit report for fiscal year 2016/17.

Until 2015, Nepal's Open Budget Index (OBI) scores had been consistently stable, showing little variation from one survey to another. In 2015 however, Nepal's score abruptly fell from 44/100 to 24/100, reflecting more a change in OBI methodology to give higher scoring value to public participation, rather than deterioration in budget transparency as such. In the OBI survey 2017, Nepal's score rose substantially to 52/100. Six of eight key budget documents are now available to the public in a timeframe consistent with international standards, as opposed to five only in the OBI 2015, and the Executive's budget proposal is now published in a timely manner.

Overall, the authorities have continued to show their commitment to budget transparency, as demonstrated by a surge in Nepal's OBI score in 2017. The Executive's budget proposal and the Enacted budget are made available to the public in a fashion that meets international standards. Quality and comprehensiveness of the information included in the budget documents has started to improve and quarterly federal budget execution reports are published.

Concerning budget oversight, the mandate and resources of the OAG have been widened to allow for enhanced coverage of subnational governments. Finally, the parliamentary Public accounts committee has started to scrutinize federal government's agencies more closely in 2018.

2. RISKS AND ASSUMPTIONS

Risks	Descriptions	Risk level H/M/L	Mitigation Measures
Decline in continuous political support for the federalisation process	Political and governance transition for effective implementation of federalism may not be fully materialized	L	Support in strengthening public institutions at all government levels and reinforcement of the policy dialogue
Weak sector	Uncertainties with sector	L	Together with federalism

strategies and policies and lack of involvement of sectoral ministries at federal level	priorities and implementation of activities are anticipated, with the reorganization of line ministries and ongoing revisions of the functions and staffing at federal and provincial level		support, the DPs need to proactively support the governments and sectoral agencies as per need in updating/implementing sector policies and priorities. Effective services and sector results are core of the success of federalism. Coordination mechanisms will have to be set at federal level between MOFAGA and sectoral ministries
Increasing corruption and fiduciary risks	Financial mismanagement and corruptions are likely to increase especially in the early years of federalism	H	Incorporate third-party monitoring and encourage citizen engagement for public accountability. Harmonize fiduciary risk mitigation measures with other DPs and federal agencies of the government such as the Financial Comptroller General Office and the Office of the Auditor General
Conflict stemming from marginalized groups, such as indigenous peoples and other minorities	Protests might arise if citizen's rights are not fully considered by provincial and local governments, and land issues are not addressed	L	Citizen's engagement, inclusive participation and accountability measures are foreseen in the programme notably in its outputs 9, 10, 11. Respect for the right to free, prior and informed consent should be promoted as UN Declaration on the rights of indigenous people (UNDRIP), ILO Convention 169 and EU commitments under CC on indigenous peoples 2017
Newly elected female leaders fail to fulfil their roles and responsibilities and these opportunities to lead and participate will be taken away in the	Research shows that beneath a layer of institutional formality, there are built-in limits to women achieving the capabilities required to perform their roles	H	Reinforcing capacities of newly elected female leader paying attention to their special needs and functions through specific trainings delivered by the PCGG on GESI related matters

next round of elections.			
Natural disasters	Disruption of services might occur if disaster risk management is not fully operational	M	By increasing the capacity of the public administration, this programme under outputs 13 and 14 includes disaster risk management support at sub-national government level

3. LESSONS LEARNT AND COMPLEMENTARITY

3.1 Lessons learnt

The EU has gained experience from its previous support in governance, notably the Nepal Peace Trust Fund, the Electoral support programme and its current involvement in the MDTF for PFM reform support. Strong government leadership for the programme (through clearly assigned execution role to one of its central agencies), good coordination among DPs and a rigorous monitoring, throughout the program cycle are key factors for success of externally financed policy support as well as framework program interventions.

3.2 Complementarity, synergy and donor coordination

EU will continue to be an active member of the International Development Partner Group (IDPG) on Federalism support for sharing and exchange of information, work collectively on issues of common interest, and coordinate activities for the federalism support initiatives (with focus on sub-national level). Most of the DPs have adapted and aligned their country support strategies and frameworks to the new context of Nepal. Strengthening the new federal institutions, supporting setting up systems and procedures, and developing capacities of the human resources have been common key features in the development cooperation strategies of the DPs.

The EU Federalism support will complement other DPs programmes in support to local governance (USAID, GIZ, Australian Embassy). Notably, it will complement the EUR 4.6 million capacity development support to governance programme (2019-2022) from GIZ which seeks to support PLGSP in three key areas: inclusive planning and decision-making, service delivery and capacity development institutions and practices.

On fiscal decentralisation, EU will increase its active involvement in the MDTF (2017-2022) for PFM reform led and administered by the World Bank and jointly funded by other donors: Norwegian, Danish, Australian, and Swiss embassies as well as DFID and USAID.

It will also complement its previous support to the Asian Development Bank (ADB) in which EU contributed up to 2017 to the financing of the Strengthening Public Management Program (SPMP) for the development of a Municipal Administration Revenue System (MARS).

4. DESCRIPTION OF THE ACTION

4.1 Overall objective, specific objectives, expected outputs and indicative activities

The EU Federalism support has adopted a two-way approach, on capacity building of people and institutions through the PLGSP and on fiscal decentralization through the Integrated Public Finance Management Reform Programme (IPFMRP).

I) Support to PLGSP:

The overall objective (impact) of the Action is to support the PLGSP for the creation of functional, sustainable, inclusive and accountable provincial and local governments.

The program aims to reach 3 specific objectives (outcomes):

- 1) Government institutions and intergovernmental mechanism at all level are fully functioning in support of federal governance, as per the constitution,
- 2) Provincial and local governments (PLGs) have efficient, effective, inclusive and accountable institutions, and promote innovations and partnership for inclusive local development
- 3) Elected representatives and civil servants at provincial and local governments have the capacity and serve citizens to their satisfaction.

The induced outputs are:

- 1A) Federal ministries and agencies are supporting the PLGs in policy and institutional spheres for implementing federal governance;
- 1B) Inter-governmental administrative mechanisms are fully functional;
- 2A) Provincial governments have functional, inclusive and accountable institutions;
- 2B) Local governments have functional, sustainable, inclusive and accountable institutions;
- 2C) Provincial and local governments promote innovations and partnership for inclusive governance and local development;
- 3A) Elected representatives and civil servants of provincial governments are capacitated to serve citizens to their satisfaction;
- 3B) Citizens are satisfied from the services of the capacitated elected representatives and civil servants of local governments.

The 14 direct outputs are:

- 1) Federal level institutions develop legislations and policies to support provincial and local governments;
- 2) Federal level institutions develop tools and systems to support provincial and local governments in a consultative process;
- 3) Inter-governmental administrative mechanisms strengthened and functional,
- 4) Provincial governments drafted legislation
- 5) Modernized provincial government systems enable horizontal and vertical accountability to all citizens and mainstream GESI;
- 6) Provincial governments manage core public administration functions,
- 7) PCGGs made operational to deliver capacity development services
- 8) Modernised local governments have strong administrative system, accountable and public financial management system;
- 9) Local government systems enabled horizontal and vertical accountability to all citizens,
- 10) Local governments systems mainstream GESI in their service delivery;
- 11) Local governments systems enable citizen engagement and inclusive participation,
- 12) Innovation and partnership fund is operational and transparently supporting local governments innovative practices;
- 13) Elected representatives and civil servants at the province level are incentivized and trained for delivering high quality services;
- 14) Local governments' elected representatives and civil servants are empowered and trained for delivering high quality services.

Budget Support

The main indicative activities to implement the budget support package are policy dialogue, financial transfers, capacity development and monitoring performance. In particular:

- Continued policy dialogue with the government, focusing on results, disbursement conditions of the Sector Reform Performance Contract (SRPC) and adequate implementation of complementary support;
- Regular monitoring with respect to macro-economic and PFM, as well as budget transparency;
- Preparation of the disbursement files and monitoring of performance targets and indicators to be used for disbursement;
- Participation as appropriate in federal and provincial level coordination mechanisms, sector meetings / reviews and technical working groups.

There will be two **complementary support** components:

1) Support to PLGSP - including the following indicative activities: capacity building and provision of the technical experts and support staffs to the programme implementation unit; strengthen, monitoring and support reporting common results framework and indicators; training for participatory policy formulation, coordination for all three levels of government, improved service delivery, etc.

2) Integrated Public Finance Management Reform Programme (IPFMRP)

The IPFMRP supported by the MDTF, provides a sound strategic framework for supporting implementation of federalism with focus on sub-national levels of government. The IPFMRP indicative list of activities foresees building and provision of technical expertise and support staffs for implementation of National PFM reform plan (2016-2025) at local and provincial level. Training and awareness raising aimed at : (i) better capital budget execution and revenue administration, (ii) enhanced professional capacity of key PFM stakeholders and (iii) enhanced PFM accountability through strengthened audit function.

4.2 Intervention logic

EU foresees to contribute to PLGSP through budget support with a contribution of EUR 28 000 000. PLGSP combines programmatic components of formulation and execution of policies and strategies (related to restructuring and redefining public administration and fiscal decentralization), contributing to institution building at all levels, and towards capacity development of the human resources, systems and procedures for institutionalizing the governance and accountability among the three-levels of governments.

An amount of EUR 4 000 000 will be left for complementary support, including a contribution to the Multi Donor Trust Fund on the PFM aspect of fiscal decentralisation. The EU support to the MDTF aims at strengthening the effectiveness of selected PFM institutions and related procurement, systems and procedures at the federal and subnational levels.

The budget support aid modality is justified by the national scope of the PLGSP and its government-led management structure. It provides effective leverage for policy reforms and promote policy dialogue. Acting as a major financial contributor to the PLGSP, EU will have a considerable policy dialogue leverage with the three levels of governments in the implementation of the federalism reform in Nepal. Policy dialogue will cover all sectors.

Complementarity with other EU interventions

The federalism reform will directly impact the sectorial national strategies implementation, notably the Agriculture Development Strategy (ADS), the School Sector Development Plan (SSDP) and the Multi-Sector Nutrition Plan (MSNP).

The strengthening of capacities of the local authorities through the EU Federalism support will facilitate the data collection at local level and hence will help monitoring the other EU sectorial BS in the rural development and education focal areas of the current MIP (2014-2020).

Complementarity with funding under EU thematic budget lines

The EU funded projects under thematic budget lines implemented by CSO at grass root level will enable to fuel the EU policy dialogue with the three levels of governments.

In 2018, grants were awarded under the Civil Society-Local Authority (CSO-LA) in order to complement the EU Federalism Support:

- Under CSO, the EU Delegation had allocated a total amount of EUR 3 million in three grants to three NGOs under the theme "Enhancing citizens' participation in sub-national good governance in the context of the new federal system in Nepal" in provinces 2, 6 and 7 for a 4 years implementation period.
- Under LA, the EU Delegation had allocated a EUR 2 million grant with the Town development fund, public institution under the Ministry of Urban development to reinforce financial and technical capacities of 15 municipalities for a 4-year implementation period.

4.3 Mainstreaming

Gender: The EU strongly commits to promoting gender equality and empowerment within and beyond the EU, in particular through implementation of the Gender Action Plan (GAP) II. The transversal nature of the federalism support programme, poses an opportunity to effectively engage in policy dialogue with the government on gender equality questions, actively support women representatives in their new political roles, working with men representatives on creating and safeguarding enabling environment for women, as well as ensure the effective implementation of government policies and programmes at the local level following GESI commitments and guidelines.

Resilience/conflict sensitivity: The action entails a conflict prevention and peacebuilding dimension. The 2015 Constitution was a political settlement ending the ten years long conflict that prevailed in the country. Federalism state structure has been selected as the model of governance that will bring peace and stability to Nepal. By empowering the sub-national levels of governments, this programme will help the voice of citizens to be heard and their needs to be adequately fulfilled by the provincial and local public administration. The participatory and inclusiveness approach of this program will mitigate the risk of conflict and increase resilience at provincial and local levels. Indeed, conflict prevention can only be effective through meaningful inclusion.

Environment and climate change: This intervention will strengthen local governments and the participation of communities in local governance processes for planning, implementing and monitoring of investment in the environment and climate change related activities. More investments are needed on climate resilience infrastructures and disaster risk reduction, both at local and national levels. For instance, reinforcing the Build back better principles at local level will prevent damages caused by earthquakes.

Right of indigenous people: By empowering local governments, PLGSP will enable the representation and respect of rights of the indigenous peoples as well as and addressing root causes of conflict such as land issues.

Disaster Risk Management: By empowering local governments, PLGSP will enable the local governments to implement the National strategy for disaster risk management in agreement with the 2017 Disaster risk and management Act.

4.4 Contribution to SDGs

This intervention is relevant for the 2030 Agenda. It contributes primarily to the progressive achievement of SDG 16 on Peace and strong institutions, and will tackle the SDGs 17 on Partnerships and SDG 5 on Gender equality.

5. IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is 54 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Decision and the relevant contracts and agreements.

5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for the budget support component is EUR 28 000 000, and for complementary support is EUR 4 350 000. Through the amount allocated for budget support, the EU will represent the main donor for PLGSP. It will give EU leverage in terms of policy dialogue and influence on PLGSP. The complementary support is divided in EUR 2 000 000 as indirect management through an administrative agreement with the WB to top-up the EU contribution to the Multi-Donor Trust Fund on PFM Reform programme and in EUR 2 000 000 as indirect management through contribution agreement with the international organisation that will be chosen as technical assistance service provider in PLGSP. An amount of EUR 350 000 is allocated for technical assistance in statistics, evaluation, audit and communication and visibility.

5.3.2 Criteria for disbursement of budget support

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of PLGSP, the related Performance Assessment Framework (PAF) and continued credibility and relevance thereof, or successor strategy;
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme;

- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

b) The performance indicators for disbursement that may be used for variable tranches are listed as such:

- Provincial Centre for Good Governance (PCGG) established and functional in all 7 provinces;
- % of Local Governments (LGs) that have endorsed and implemented a GESI strategy approved by the Executive body;
- % of Local governments that have capacity building plans based on Local Government Institutional Self-Assessment (LISA) report completed and communicated to PCGGs,
- % of LGs that submit trimester financial statements to MOF/FCGO according to the national accounting standard;
- % of LGs that have Revenue improvement action plans.

The chosen performance indicators and targets to be used for disbursements will apply for the duration of the action. However, in duly justified circumstances, the Ministry of Finance may submit a request to the Commission for the targets and indicators to be changed.

Note that any change to the targets should be agreed ex-ante at the latest by the end of the first quarter of the assessed year. The agreed changes to the targets and indicators shall be agreed in advance and may be authorised in writing (either through a formal amendment to the financing agreement or an exchange of letters).

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

Indicative breakdown and timetable of disbursement (EUR):

Indicative Timing	Q2 2021	Q2 2022	Q2 2023
Fixed tranche	8 000 000	5 000 000	5 000 000
Variable tranche	0	5 000 000	5 000 000
Total	8 000 000	10 000 000	10 000 000

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Nepali Rupees will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4 Implementation modalities for complementary support to budget support

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures⁵.

5.4.1 Indirect management with an international organisation: PLGSP Technical Assistance

A part of this action may be implemented in indirect management with an entity that will be selected by the Commission's services using the following criteria:

- Internationally recognised expertise; extensive working experience in supporting federalism implementation and local governance capacity building, in the country and internationally;
- Sufficient logistical and management capacities in Nepal to deploy nationwide;
- Managerial capacity, expertise and long-standing experience and credibility in directly implementing and liaising with relevant stakeholders in Nepal;

Selection will be made in close consultation by the government and in agreement with development partners co-financing the programme for provision of technical assistance support to PLGSP implementation.

The implementation by this entity entails contributions to the achievement of the overall objective and the three specific objectives specified in section 4.1 - Support to PLGSP.

In case the envisaged entity would need to be replaced, the Commission's services may select a replacement entity using the same criteria. If the entity is replaced the decision to replace it needs to be justified.

5.4.2 Indirect management with an international organisation: Local level PFM capacity building through the Multi-Donor Trust Fund managed by the World Bank

A part of this action may be implemented in indirect management with the World Bank Group. This implementation entails support to the progressive strengthening of the effectiveness of selected PFM institutions and related procurement, systems and procedures at the federal and subnational levels as mentioned in section 4.1 of the document. It capitalises on the existing experience and relations established during the WB PFM MDTF to which the EU is a contributor since 2011.

The envisaged entity has been selected using the following criteria:

- Internationally recognised expertise; extensive working experience and institutional memory in providing PFM support in Nepal since the first MDTF established in December 2010;
- Sufficient logistical and management capacities in Nepal to deploy nationwide;
- Managerial capacity, expertise and long-standing experience and credibility in directly implementing the Multi-Donor Trust Fund that finances PFM programmes through joint-donor contributions.

⁵ www.sanctionsmap.eu. Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

Currently the World Bank is strategically best placed to add value to the EU's interaction with the GoN in the implementation of PFM programmes and enjoys the highest levels of access to senior Nepal stakeholders.

This implementation will contribute to the achievement to overall objective and specific objectives specified in 4.1 Overall objective, specific objectives, expected outputs and indicative activities, II – Support to Integrated Public Finance Management Reform Programme (IPFMRP).

In case the envisaged entity would need to be replaced, the Commission's services may select a replacement entity using the same criteria. If the entity is replaced the decision to replace it needs to be justified.

5.4.3 Procurement

For a proper implementation, it will be necessary to carry out external reviews or data verification exercises to inform disbursement decisions and to contribute to strengthening the policy monitoring framework and national statistical systems. To this end, external technical assistance will be contracted in direct management.

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

	EU contribution (amount in EUR)	Indicative third-party contribution, in currency identified⁴
Budget support (cf section 5.3)	28 000 000	
Complementary support		
PLGSP Technical Assistance composed of		
Indirect management with an International Organisation (cf section 5.4.1)	2 000 000	
Indirect management with the World Bank for the PFM Reform through MDTF (cf section 5.4.2)	2 000 000	
Procurement (Direct management) (cf section 5.4.3)	100 000	
Evaluation – cf section 5.9, Audit (cf section 5.10)	150 000	
Communication and visibility (cf section 5.11)	100 000	
Total	32 350 000	

5.7 Organisational set-up and responsibilities

Committees will be set-up at federal and provincial levels with the joint participation of GoN and DPs in most of them. The EU will be represented in the PLGSP committees - which will give considerable policy dialogue leverage to the EU on the federalism reform in the country as well as influencing decisions in PLGSP implementation process.

Two committees will be set up at federal level, the National Steering Committee (NSC), which provides guidance and promotes intergovernmental coordination and the National Execution Committee (NEC) which oversees the overall programme implementation. In plus, the Programme Coordination Unit (PCU) provides the technical assistance to the programme and coordinate the Provincial Programme Implementation Units (PPIU).

Two committees will be set up at provincial level, the Provincial Steering Committee (PSC) which will provide strategic guidance and the Provincial Coordination Committee (PCC) which will coordinate among the provincial and local governments. The Provincial Programme Implementation Unit (PPIU) in the office of the Chief Minister will provide technical support to the provincial and local governments within the respective province and be responsible for proper execution of the innovation partnership fund at the provincial levels.

⁴ The other donors to PLGSP are DFID (EUR 23.45 million), Norwegian Embassy (EUR 17.55 million), Switzerland cooperation (EUR 1.75 million).

The provincial centres for good governance (PCGG) will have four key sections: (i) Curriculum and Materials development section, (ii) Institutional capacity assessment section, (iii) Training, research, coaching and mentoring section and (iv) Administration and finance section.

5.8 Performance and Results monitoring and reporting

The performance monitoring will be carried out yearly by the GoN jointly with the EU Delegation. With regard to the performance monitoring of the general conditions for disbursement eligibility criteria on Budget Support, the Ministry of Finance (MoF) will report on macroeconomic performance improvements in PFM and budget transparency. Assessment of variable tranche indicators and targets will be jointly done with the MOFAGA and MoF. Technical assistance is foreseen to revise the accuracy of the performance indicators and to contribute to strengthening the policy monitoring framework and national statistical systems. This technical assistance will be funded through direct management – procurement part of the budget.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the policy or reform action plan list.

The following monitoring arrangements will be used to support the management of PLGSP:

A monitoring & evaluation framework will provide the foundation for programme monitoring and a system of online reporting will be developed. A baseline survey will be undertaken at the start of PLGSP. After completion of the programme, an end-of-programme evaluation will be undertaken against the baseline indicators in order to evaluate the achievement of programme results. An independent Mid-Term Evaluation of PLGSP will be undertaken during the first quarter of the third year of the programme. Annual Monitoring and Evaluation Plan (AMEP) will be the basis for regular monitoring. Internal and third-party monitoring, peer review, independent evaluation, joint field visits, and, external quality assurance teams will be used.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews.

5.9 Evaluation

Having regard to the nature of the action, a mid-term and final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

Mid-term evaluation will be carried out for problem solving and learning purposes, in particular with respect to the intention to launch a second phase of the action.

Final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), considering in particular the fact that it is a very complex programme involving several stakeholders and having considerable impact.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 30 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

It is foreseen that audit services may be contracted under a framework contract.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific communication and visibility plan of the Action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and contribution agreements.

The communication and visibility requirements for European Union external action (or any succeeding document) shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

It is foreseen that a contract for communication and visibility may be contracted.

APPENDIX – INTERVENTION LOGIC TABLE (FOR BUDGET SUPPORT)⁶

	Results chain	Indicators (max. 15)	Baselines (2018)	Targets by the end of the budget support contract (2023)	Sources of data
Expected impact of the policy (Overall objective)	To contribute to the creation of functional, sustainable, inclusive and accountable provincial and local government				MOFAGA/PLGSP Annual Report - annual report (September each year) including reporting progress on EU indicators
Expected outcomes of the policy (Specific objective(s))	<p><i>Objective 1: Government institutions and intergovernmental mechanism at all level are fully functioning in support of federal governance, as per the constitution</i></p> <p><i>Objective 2: Provincial and local governments have efficient, effective, inclusive and accountable institutions, and promote innovations and partnership for inclusive local development</i></p> <p><i>Objective 3: Elected representatives and civil servants at provincial and local governments have the capacity and serve citizens to their satisfaction</i></p>	<p>Primary – Federal and provincial - government expenditures as a % of original approved budget, by sector (Related to SDG 16.6.1)</p> <p>Government Effectiveness score **</p> <p>Extent of change in citizens perceptions of the quality and access to services *</p>	<p>76 % (F) N/A (P)</p> <p>19</p> <p>None</p>	<p>84.9 % (F) 70 % (P)</p> <p>39</p> <p>70%</p>	<p>MoF, NPC with support from PCU and PPIU.</p> <p>World Bank Worldwide Governance Indicators.</p> <p>Citizens survey</p>

⁶ Mark indicators aligned with the relevant programming document with "*" and indicators aligned to the EU Results Framework with "***". Indicators used within variables tranches must be flagged in bold.

Induced outputs	1A. Federal ministries and agencies are supporting the PLGs in policy and institutional spheres for implementing federal governance	# number of federal agencies developed policy guidelines for local and provincial governments in facilitation with MOFAGA	0	10	MOFAGA/PLGSP Annual Report
	1B. Inter-governmental administrative mechanisms are fully functional	# Coordination meeting between OPMCM, federal ministries and provincial governments' focal persons	None	Quarterly	MOFAGA/PLGSP Annual Report
	2A. Provincial governments have functional, inclusive and accountable institutions	% LG that have conducted a ward level planning workshop to prepare their annual plan *	70%	100%	MOFAGA/PLGSP Annual Report
	2B. Local governments have functional, sustainable, inclusive and accountable institutions	# PGs ministries and departments and institutions using a performance assessment system	None	7	MOFAGA/PLGSP Annual Report
	2C. Provincial and local governments promote innovations and partnership for inclusive governance and local development				
	3A. Elected representatives and civil servants of provincial governments are capacitated to serve citizens to their satisfaction				
	3B. Citizens are satisfied from the services of the capacitated elected representatives and civil servants of local governments				

Direct outputs	1. Federal Level institutions develop legislations and policies to support provincial and local governments.	% of PGs and LGs adapt and adopt planning, budgeting procedure and tools developed by Federal level institution	none	7/753	MOFAGA/PLGSP	Annual Report
	2. Federal level institutions develop tools and systems to support provincial and local Governments in a consultative process.	yy1 US\$ delivered by IPF to LG for yy2 innovative projects in yy3 provinces	0	yy1: US\$28 M in 2021/22 and US\$ 35 M in 2022/23	MOFAGA/PLGSP	Annual Report
	3. Inter-governmental administrative mechanisms strengthened and functional					
	4. Provincial Governments drafted legislation					
	5. Modernized Provincial Government systems enable horizontal and vertical accountability to all citizens and mainstream GESI	% of total PGs annual budget allocated for capacity development	0	50% in 2019/20 100% in 2020/21	MOFAGA/PLGSP	Annual Report
	6. Provincial Governments Manage core public Administration functions	% LGs have capacity building plans based on LISA report completed and communicated to PCGGs	0	70%	MOFAGA/PLGSP	Annual Report
	7. PCGGs made operational to deliver capacity development services					
	8. Modernised Local Governments have strong administrative system, accountable and public financial management system	% of LGs that submit trimester financial statements to MOF/FCGO	0	90%	MOFAGA/PLGSP	Annual Report
	9. Local Government systems enabled horizontal and vertical Accountability to all citizens					
	10. Local Governments systems mainstream GESI in their service delivery	Provincial Centre for Good Governance (PCGG) established in all 7 provinces and functional	0	7	MOFAGA/PLGSP	Annual Report

	11. Local Governments systems enable citizen engagement and inclusive participation				
	12. Innovation and Partnership fund is operational and transparently supporting local governments innovative practices	% LGs have endorsed a GESI strategy approved by the Executive Body	4%	70%	MOFAGA/PLGSP Annual Report
	13. Elected Representative and Civil servants at the province level are incentivized and trained for delivering high quality services	% of LGs that have Revenue Improvement Action Plan	20%	60%	MOFAGA/PLGSP Annual Report
	14. Local Governments' elected representative and civil servants are empowered and trained for delivering high quality services				

EN



This action is funded by the European Union

ANNEX II

of the Commission Implementing Decision on the financing of the Annual Action Programme
in favour of Nepal for 2019

Action Document for Support to the Multi-Sector Nutrition Plan of the Government of Nepal (second Phase: 2018-2022)

ANNUAL PROGRAMME/MEASURE

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation and action programme/measure in the sense of Articles 2 and 3 of Regulation N° 236/2014.

1. Title/basic act/ CRIS number	Support to the Multi-Sector Nutrition Plan of the Government of Nepal (second Phase: 2018-2022) CRIS number: ACA/2019/040-781 financed under the Development Cooperation Instrument	
2. Zone benefiting from the action/location	Nepal. The action shall be carried out at the following location: In all provinces of Nepal.	
3. Programming document	Addendum No 1 to the Multiannual Indicative Programme between the European Union and Nepal for the period 2014-2020 ¹	
4. SDGs	Main SDGs: SDG 2 (zero hunger) and 3 (good health and well-being) Other significant SDGs: SDG 1 (no poverty), SDG 5 (gender equality) and SDG 6 (clean water and sanitation)	
5. Sector of intervention/ thematic area	Sustainable Rural Development	DEV. Assistance: YES ²
6. Amounts concerned	Total estimated cost: EUR 24 350 000 Total amount of EU budget contribution EUR 23 350 000 of which EUR 20 000 000 for budget support and EUR 3 350 000 for	

¹ C(2018)4741 of 20 July 2018.

² Official Development Assistance is administered with the promotion of the economic development and welfare
of developing countries as its main objective.

	complementary support. This action is co-financed in joint co-financing by: - United Nations Children's Fund (UNICEF) for an amount of EUR 1 000 000			
7. Aid modality(ies) and implementation modality(ies)	Budget Support Direct management through: - Budget Support: Sector Reform Performance Contract - Procurement Indirect management with the UNICEF			
8 a) DAC code(s)	120: Health, 160: Other social infrastructure and services 12240: Basic nutrition (20%), 12261: Health education (10%), 14032: Basic sanitation (20%), 16050: Multi-sector aid for basic services (50%)			
b) Main Delivery Channel	12000 Recipient government and 41122 UNICEF ³			
9. Markers (from CRIS DAC form)⁴	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	■
	Aid to environment	■	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and Women's and Girl's Empowerment ⁵	<input type="checkbox"/>	<input type="checkbox"/>	■
	Trade Development	■	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input type="checkbox"/>	<input type="checkbox"/>	■
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	■	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	■	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	■	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	■	<input type="checkbox"/>	<input type="checkbox"/>
10. Global Public Goods and Challenges (GPGC) thematic flagships	Not applicable			

³<http://www.oecd.org/dac/stats/annex2.htm>

SUMMARY

Despite apparent progress in poverty reduction in Nepal, the prevalence of malnutrition has not fallen at a comparable rate. As a result, the annual rate of stunting reduction falls short of that required to meet the World Health Assembly (WHA) global nutrition target for 2025, and the national prevalence of child wasting and anaemia among women of reproductive age have not significantly reduced at all.

The action will support - through policy dialogue, budget support and capacity building measures - the Government of Nepal (GoN) in implementing the second phase of its Multi-Sector Nutrition Plan 2018-2022 (MSNP-II).

The action aims to contribute 'to improve maternal, adolescent and child nutrition, by scaling up essential nutrition specific and sensitive interventions, and creating an enabling environment for nutrition'.

It will also contribute to better coordinate the efforts of the various stakeholders involved (several government agencies, civil society, private sector and development partners), through an enhanced platform to review MSNP-II.

The action is the result of sustained engagement on nutrition with the GoN since 2011. At international level, the action is in line with the targets articulated in Sustainable Development Goal (SDG) 2 'End hunger, achieve food security and improved nutrition and promote sustainable agriculture'. It reflects EU priorities as stated in the New European Consensus on Development (2017)⁶.

This action complements other EU's interventions in the country, notably on agriculture, water and sanitation, education, as well as the intervention on federalism, with which strong synergies will be ensured in relation to decentralisation.

Capacity building measures include technical support to MSNP-II, which will be provided by the United Nations Children's Fund (UNICEF), through an indirect management contract.

1 CONTEXT ANALYSIS

1.1 Context Description

Nepal went through a long transition process from political instability and violent conflict to peace and stability. A shift to a federal democratic government took place with the election of a parliament in 2017 and a new prime minister in February 2018. However, many challenges remain such as those related to economic growth, human development and food and nutrition security, especially following the devastating earthquake of 2015.

The country has seen significant economic and health improvements since the turn of the century. The poverty rate declined from 40% in 1996 to 25% in 2017. Infant mortality rate and Under-five mortality rate have declined from respectively 78 and 118 per 1,000 live births

⁶ In particular, the priorities under "people – human development and dignity" by focusing on "investment in the early development of children by addressing all forms of malnutrition including the stunting and wasting of children through support for basic services in health, nutrition, water, sanitation and hygiene and social protection".

in 1996 to 32 and 39 in 2016⁷. Despite these improvements, Nepal remains a least developed country. It was ranked 144 out of 188 countries in the 2016 Human Development Index, with an estimated Gross Domestic Product (GDP) per capita of \$835 in 2017. Migration from rural areas is very high, leaving often women alone to manage their families and the farms.

Nepal has achieved a comparably impressive rate of stunting reduction⁸ (although falling short of the WHA target for 2025). Furthermore, the Constitution of Nepal (2015) recognizes the right to health services, food and clean water as fundamental rights of citizens. Nevertheless, in common with other countries in the region, Nepal continues to be associated with a phenomenon known as the "South Asia enigma" whereby despite apparent progress with poverty reduction, the prevalence of malnutrition has not fallen at a comparable rate.

1.2 Policy Framework (Global, EU)

Globally the EU has committed to accelerating the reduction of undernutrition with the *2013 Communication on Enhancing maternal and child nutrition*⁹ and its *Action Plan on Nutrition (APN, 2014-2020)*¹⁰. This includes both the pledge to ensure that at least EUR 3.5 billion will be invested in nutrition programmes between 2014 and 2020 and the commitment to ensure that seven million children under the age of five are averted from stunting by 2025.

The action is in line with the above policies as well as with the *EU Food security Communication*¹¹, and directly responds to the *SDG Agenda 2030*¹². In particular it will contribute to the achievement of SDGs 2.1 and 2.2 (to end hunger and all forms of malnutrition). The action also contributes to objectives related to SDGs 1 (poverty reduction), SDGs 3.1 and 3.2 (prevention of child and maternal mortality), SDGs 5 (empowering adolescent girls and women, and addressing their role within the household and local communities) and SDG 6.2 (promoting hygiene and defecation free municipalities).

The action also supports the objective of "healthy nutrition levels for girls and women throughout their life cycle" as specified in the *Council Conclusions on the EU Gender Action Plan 2016-2020*¹³. It underscores the priorities of the *New European consensus on development (2017)* and in particular the common priorities framework under "people-human development and dignity" by focusing on "investment in the early development of children and by addressing all forms of malnutrition through support for basic services in health, nutrition, water, sanitation and hygiene, and social protection"¹⁴.

Supporting a multi-sectoral approach to address nutrition is in line with the Addendum n°1 to the Multiannual Indicative Programme (MIP) 2014-2020, and in particular with the specific objectives 2 (Efficient and sustainable agriculture sector guaranteeing food security in rural

⁷ Nepal Demographic and Health Survey 2016; difference between boys and girls: 31% and 34% (Infant Mortality Rate), 36% and 41% (Under-Five Mortality Rate).

⁸ https://ec.europa.eu/europeaid/sites/devco/files/2017_country_profile_on_nutrition_-_nepal.pdf

⁹ https://ec.europa.eu/europeaid/sites/devco/files/communication-policy-maternal-child-nutrition-com2013141-20130312_en.pdf

¹⁰ https://ec.europa.eu/europeaid/sites/devco/files/swd-action-plan-on-nutrition-234-2014_en.pdf

¹¹ EC communication on food security - Accompanying document | capacity4dev.eu

¹² <https://sustainabledevelopment.un.org>

¹³ <https://www.consilium.europa.eu/en/press/press-releases/2015/10/26/fac-conclusions-gender-development/pdf>

¹⁴ https://ec.europa.eu/europeaid/sites/devco/files/european-consensus-on-development-final-20170626_en.pdf

areas) and 3 (Improve maternal, infant and child nutrition in rural areas) of its first focal sector (sustainable rural development). The other two focal sectors of the MIP (Education and strengthening democracy and decentralization) present also a clear strategic fit with the nutrition agenda. This action will also support the GoN to implement the recommendations by human rights and treaty bodies and apply the Right-Based Approach (RBA) working principles to emphasise the advancement of more equitable access to priority services.

1.3 Public Policy Analysis of the partner country/region

Government nutrition initiatives in Nepal have been underway for more than three decades, with national nutrition strategies mostly led by the Ministry of Health and without sectoral integration. Nepal is a member of the international Scaling Up Nutrition (SUN) Movement. Between 2011 and 2015, the GoN was directly supported by the strategic EU / UNICEF Maternal and Young Child Nutrition Security in Asia project (MYCNSIA). The MSNP-I (2013–2017) served as the first common results framework for setting out plans of action for implementing nutrition-sensitive policies and strategies for key sectors, including agriculture, health, education, and water, sanitation and hygiene (WASH).

In 2017, EU / UNICEF Partnership for Improved Nutrition (PIN) project supported the National Planning Commission (NPC) for the formulation of the MSNP-II. This second phase of MSNP (2018-2022) represents the current national policy framework of the GoN to address malnutrition.

The MSNP is further underpinned by the constitution of Nepal (2015) which recognises the right to health services, the right to food, and the right to clean water as fundamental rights of its citizens, as well as the recently approved right to food and Food sovereignty Act (2018). Article 30 of the new Constitution gives each person “the right to live in a healthy and clean environment.

The MSNP-II further develops the MSNP-I strategic focus on the imperative for both nutrition "specific" and nutrition "sensitive" interventions to address the complex challenges of malnutrition.

The goal of the MSNP-II is: "Improved maternal, adolescent and child nutrition by scaling up essential nutrition-specific and sensitive interventions and creating an enabling environment for nutrition". The three objectives and outcomes of the MSNP-II reinforce the multi-sectoral focus and recognise the significance of the new federal structure for implementation:

- (i) To increase the number of service delivery institutions to improve access to and the use of nutrition specific services;
- (ii) To increase access to and the use of nutrition sensitive services including improving health related behaviour; and,
- (iii) To improve policies, plans and multi-sectoral coordination at federal, provincial and local levels to create an enabling environment to improve nutrition.

The estimated costs of implementing MSNP-II over the five-year period are NPR 48.9 billion or around EUR 386 million (averaging around EUR 77 million per year).

1.4 Stakeholder analysis

With MSNP-I, Nepal established a multi-sectoral coordination architecture across six ministries namely (1) Ministry of Agriculture and Livestock Development (MoALD), (2) Ministry of Education and Science & Technology (MoEST), (3) Ministry of Federal Affairs and General Administration (MoFAGA), (4) Ministry of Health and Population (MoHP), (5)

Ministry of Women, Children and Senior Citizen (MoWCSC), and (6) Ministry of Water, Sanitation and Hygiene (MoWSH).

The NPC is the apex advisory body of the GoN, headed by the Prime minister. The highest level of coordination mechanism for MSNP-II is the High-level nutrition and food security steering committee, chaired by the Vice-Chair of the NPC, with membership from relevant line ministries at the level of Secretaries. The National Nutrition and Food Security Coordination Committee (NNFSCC) reviews progress and strategizes future actions.

Nepal is in the process of transitioning into a federal democratic government based on the 2015 constitution¹⁵. Political leaders have promoted this transition largely on the basis that "shared rule" between the national, provincial and local levels of government would allow elected leaders to better address inequality and discrimination – hence bringing greater stability to the country. The 2015 Constitution mandates the representation of marginalized groups, including women, Dalits, and minorities in the local governments.

As subnational governments assume greater responsibility, and new procedures and processes for governance and decision-making are adopted, there will be opportunities to better integrate ideas for more effective gender equality and social inclusion, as well as better involvement of civil society organisations (CSOs), including women's organisations. An important foundation on which to build is the existence of the Civil Society Alliance for Nutrition in Nepal (CSANN), with chapters in every province. CSANN was originally set up for the SUN movement and members understand its role as ensuring inclusive participation of CSOs to innovate, advocate and function as a watchdog for the nutrition agenda in Nepal.

A crucial issue with respect to MSNP-II relates to the extent to which the new system of budget allocation from the central government to local governments (based of 4 types of block grants) will provide local governments with adequate financial resources and fiscal autonomy to meet their development and service delivery mandates and aspirations.

1.5 Problem analysis/priority areas for support

The relevance of MSNP-II stems from the premise that nutrition be considered as an essential issue for development at all levels of society and by a wide-range of sectors. Poor nutrition leads to lower individual earnings and mental acuity and represents an often invisible but highly significant impediment to the successful achievement of most of the SDGs.

Despite impressive levels of poverty reduction, the prevalence of child stunting in Nepal remains high, affecting 36% of children under five years of age, while significant spatial differences are evident¹⁶. Acute malnutrition among the children age 6-59 months has stagnated over the decades. Gender discrimination, in the form of women's heavy work load, inadequate decision-making power and control over resources, early marriage, early and frequent pregnancies, poor care practices and household food-distribution favouring men, also contributes to malnutrition of women and children. Micronutrient deficiencies remain

¹⁵Nepal is now divided into seven provinces, and is further sub-divided into 293 urban municipalities and 460 rural municipalities.

¹⁶ For example, in the Western Mountains, stunting prevalence is as high as 55%. Likewise, the national prevalence of child wasting is 10%, while it is over 15.2% in the Central Terai. Analysis of the Nepal Demographic and Health Survey 2016 data further indicates that the prevalence of stunting has not fallen and wasting may even have increased in some ecological zones.

widespread, with 41% of women of reproductive age and 69% of young children age 6-23 months identified as anaemic¹⁷.

According to 2016 Nepal Demographic and Health Survey (NDHS), around one third of all infants are not exclusively breastfed (with a slight deterioration evident in recent years) and data indicates that at least two out of every three children under two years are currently not receiving a minimally acceptable diet¹⁸.

Unless these multiple challenges are simultaneously addressed in a sustainable manner through the strengthening of national policies and service delivery systems, malnutrition will continue to restrict economic growth and perpetuate a cycle of poverty.

The nutrition equality gap also appears to be widening, with the difference between stunting prevalence among the worst-off households as compared to the better off almost three times higher. This equality gap grows to about 10 times worse when the stunting of Dalit children. Such inequalities are in turn reflecting other inequalities such as the fact that Dalits are estimated to own only 1% of arable land in Nepal¹⁹ despite constituting up to 20% of the total population.

Economic accessibility to food must be guaranteed, meaning that food must be affordable. Individuals should be able to afford food for an adequate diet without compromising on any other basic needs, such as school fees, medicines or rent. Physical accessibility should also be guaranteed, meaning that food should be accessible to all, including to the physically vulnerable, such as children, the sick, persons with disabilities or the elderly. Access to food must also be guaranteed to people living in remote areas or in vulnerable situations.²⁰

In recent years, the EU / UNICEF PIN has demonstrated the tremendous potential for progress as a result of ongoing capacity development and strategic resource allocation in nutritionally vulnerable communities. The transition to federalism, by increasing local governments powers, presents considerable opportunities for more effective, decentralised and accountable service delivery. To be successful, this will require systems and capacities to be in place that can ensure that local governments use these resources effectively for the benefits of all.

1.6 Other areas of assessment

1.6.1 Fundamental values

Nepal is a young democracy still consolidating the comprehensive peace accord of 2006. It has ratified many of the key international human rights instruments and abolished the death penalty. Citizens are more able to exercise their political freedom and political will as well as economic rights than a decade ago, but little progress has been achieved in enhancing accountability over the provision of state services and public goods notably at the local level.

¹⁷ Nepal Demographic and Health Survey, NDHS 2016.

¹⁸ A recent study also highlights the significant seasonal difference in young children's consumption of nutritious food, with heightened vulnerability in particular among groups disadvantaged by variables such as income, caste, ethnicity etc. (W. Broadus-Shea et al, 2018).

¹⁹ Drucza, 2016 *Cash Transfers in Nepal*.

²⁰ <https://www.ohchr.org/EN/Issues/ESCR/Pages/Food.aspx>

The 2015 Constitution guarantees key fundamental rights, including freedom of press, opinion and expression, as well as the right to food and right to information. However, further enhanced implementation capacity is key for the full realisation of these rights, as well as the rights of the indigenous peoples (Nepal recognises officially 59 groups out of the 81 Nepalese indigenous peoples). The constitution enhances the understanding of indigenous peoples by guaranteeing “special arrangements to ensure the rights of Adivasi Janajatis (indigenous ethnic groups)”, enabling them to preserve and maintain their “traditional knowledge, skill, experience, culture and social practices”. This is also important in relation to the right to food.

Although Nepal has independent rule of law institutions, they are underperforming notably due to a lack of sufficient resources. Case backlogs and enforcement of court decisions remain critical issues.

Issues of caste-related, ethnic and gender discriminations related to the country's culture and traditions still exist, though much has been done to reduce their impact, including through EU funded activities, for instance through the European Instrument for Democracy and Human Rights. In rural areas, the practice of bonded labour has been abolished, but the people previously in this situation still struggle to make a living and have a very weak social and economic position. Better livelihood perspectives would improve this situation.

Ultimately the challenge being faced is that of operationalising the rights-based approach to which the GoN is committed. For example, despite the Right to Information (RTI) Act, to date CSOs do not appear to have been important drivers of the "demand" for information and the opportunities to enhance social accountability in Nepal remain somewhat restricted. More broadly, civil society itself suffers from lack of effective coordination, a weak financial base, limited capacity and low levels of political visibility.

1.6.2 *Macroeconomic policy*

Nepal's economy has been rebounding since the 2015 earthquakes, with economic growth reaching 7.9% in Financial Year (FY) 2016/17 and 6.3% in FY 2017/18, supported by political stability, more reliable electricity supply, construction, record tourist arrivals, rising private consumption and government spending. Inflation has remained low throughout 2018, at 3.9% in September 2018 (y/y). The risks are broadly linked to the rising fiscal deficit, which reached 6.5% of GDP in FY 2017/18, and widening current account deficit, which reached 8.2% of GDP.

The authorities pursued in 2017/18 their domestic revenue mobilisation efforts, with tax revenue rising to 21.9% of GDP from 21.0% of GDP in FY 2016/17. This however was not sufficient to compensate for an extraordinary surge on the expenditure side, with total expenditures soaring to 32.0% of GDP from 27.5% in the previous year. The fiscal deficit thus rose to 6.5% of GDP, from 3.1% in 2016/17, with public debt ratios deteriorating by 4 points of GDP and official reserves falling from 8.3 to 7.2 months of imports.

On the expenditure side the government reckons that expenditures related to federalisation will need to increase by 2.2 points of GDP in FY2018/19, with revenue-sharing from federal to subnational level kicking-in at 4.6% of GDP. The deficit is oriented towards 5.0% of GDP, while public debt should continue rising to 33.1% of GDP (still in the Debt Sustainability Analysis low risk bracket) and official reserves deplete further to 5.7 months of imports. On the face of such an expansionary fiscal policy, the IMF warns in its recent Article IV consultations that fiscal expansion exceeds the economy's aggregate absorptive capacity and

is not well anchored in a realistic Medium-Term Expenditure Framework (MTEF) to ensure quality and fiscal and external sustainability.

The poverty decreased (rate of 25.2% - CBS 2010) but remains much higher in rural areas. The GDP per capita is expected to reach USD 1,143 in 2019. In recent years, migration has dramatically increased, as youth cannot find suitable opportunities at home. As a result of high outflow of labour from the country, remittance constitutes a significant share of household income. One-third of households have a member working abroad. An estimated 3.5 million Nepali are working abroad, who together contributed US \$ 7.2 billion in remittances (FY 2017/18), or 24.25% of the country's GDP.

1.6.3 Public Financial Management (PFM)

Following the 2017 elections and the establishment of provincial and local governments, the authorities have focused on providing them with staff and adequate financial resources, gradually putting in place the legal and institutional framework for fiscal decentralisation under a federal structure.

Whereas much remains to be done, and considerable support will be required in the years to come, some key progress were achieved during 2018 in implementing PFM reforms: (i) drafting and submission to Parliament of key pieces of legislation (Financial procedures and Fiscal responsibility Act, Audit Act, Public procurement Act); (ii) enhancing the institutional framework for fiscal decentralisation (nomination of a head for the National Natural Resources and Fiscal Commission (NNRFC), activation of the Intergovernmental fiscal council, deployment of accountants in all new local governments, gradual rollout of the SuTRA IT system for budgeting, accounting and reporting of local governments, establishment of provincial treasuries and confirmation of District treasuries; (iii) enhanced budget transparency (publication of the MTEF, publication of Whole-of Government financial statements for FY2017/18, improved oversight by the Public accounts committee).

The challenges ahead are as follows:

- In the short-term: Complete the legal and regulatory framework; Complete staffing of subnational governments; Develop a comprehensive PFM capacity development plan, with enhanced role for the PFM training centre; Accelerate the upgrade and roll-out of key financial management systems, in particular SuTRA and e-GP; Ensure fiscal sustainability through improving the medium term fiscal framework and integrating the costs of federalisation; Increase budget implementation capacity and accelerate capital budget spending; Establish the provincial branches of the Office of Auditor General (OAG); Improve PFM Reform Programme coordination and monitoring through strengthening of the national PEFA Secretariat.
- In the medium to long-term: Build staff capacity in financial management, in particular at the local level; Improve strategic allocation of resources through: (i) enhanced link between national and local development strategies, and between planning and budgeting at federal and local levels, including through enhanced policy costing, MTEF and public expenditure reviews; Review the effectiveness of the new intergovernmental transfer system and revise grant formulae accordingly; Implement internal control and internal audit reforms; Ensure compliance with public procurement rules; Integrate further PFM IT systems; Enhance subnational governments' revenue mobilisation capacity; Enhance external scrutiny through improvements in external audit capacity and legislative scrutiny, and a more effectively implemented anti-corruption framework.

1.6.4 Transparency and oversight of the budget

The main reference documents for budget transparency and oversight include: Budget speech 2018/19, Executive budget proposal 2018/19, Enacted budget 2018/19 (Red book) of the Federal level, Mid-year budget execution report, Audit report for fiscal year 2016/17.

Until 2015, Nepal's Open Budget Index (OBI) had been consistently stable, showing little variation from one survey to another. In 2015 however, Nepal's score abruptly fell from 44/100 to 24/100, reflecting more a change in OBI methodology to give higher scoring value to public participation, rather than deterioration in budget transparency as such. In the Open Budget Survey 2017, Nepal's score rose substantially to 52/100. Six of eight key budget documents are now available to the public in a timeframe consistent with international standards, as opposed to five only in 2015, and the Executive's Budget Proposal is now published in a timely manner.

Overall, the authorities have continued to show their commitment to budget transparency, as demonstrated by a surge in Nepal's OBI in 2017. The Executive's Budget Proposal and the Enacted Budget are made available to the public in accordance with international standards. Quality and comprehensiveness of the information in the budget documents has started to improve and quarterly federal budget execution reports are published.

Concerning budget oversight, the mandate and resources of the OAG have been widened to allow for enhanced coverage of subnational governments. Finally, the parliamentary Public accounts committee has started to scrutinize federal government's agencies more closely in 2018.

2 RISKS AND ASSUMPTIONS

Risks and risk level (H, M, L)		Mitigating measures
Federalisation process slower than expected, affecting the capacities to implement national policies	M	Complementary support designed strategically to support and facilitate the federal transition
Uncertainties with the place of nutrition within sector priorities and implementation can be foreseen, with the reorganization of government stakeholders	L/ M	Regular evidence-based advocacy and policy consultation with GoN to closely monitor policy coherence and optimal nutrition-sensitivity across all key sectors as well as support to policy ownership at various levels
Implementation and sustainability may be impacted by institutional capacity issues, especially at provincial and local levels.	L	Supporting GoN to undertake both a mid-term review of the MSNP-II and comprehensive capacity needs assessment will be important to identify gaps and develop a road map for future priorities. Capacity building on gender equality, social inclusion and a RBA should be included as a module in all training
Weak inter-sectoral cooperation/coordination	M	Support to be provided to ensure a more efficient and effective joint sector monitoring system and by strengthening governance mechanisms
Financial mismanagement and corruption are likely to increase	M	Incorporate third-party monitoring for public accountability. Harmonize fiduciary risk

especially in the early years of federalism.		mitigation measures with other Donor Partners and federal agencies of the government.
Issues of timely availability and reliability/quality of statistics may cause difficulties in monitoring indicators	L/ M	Reinforce GoN capacities in these areas, including significant technical support to integrate a nutrition perspective into the process
Persistence of gender inequalities, including early marriage and adolescent pregnancy, as well as heavy workloads for rural women undermines efforts to break the cycle of malnutrition	M	Ensure that robust and participatory gender analysis constitutes a key dimension of the planned MSNP-II medium term review and capacity assessment initiatives. This will develop shared understanding of the root causes of inequalities; how they might impact on nutrition outcomes; how to tackle these; as well to detect if there is a need for specific, targeted actions for women and girls (or, in a given situation, for men and boys)
Environmental fragility and increased risk of natural disasters exacerbated by climate change	M	The EU will support the GoN to strengthen prevention, mitigation and disaster risk reduction in the MSNP-II as a whole, as well as in key sectors such as agriculture, health and social protection
Assumptions		
<p>It is assumed that there is continued appreciation of the financial, technical and political benefits of the proposed action and that there will be strong central, provincial and municipal government support for achievement of results.</p> <p>It is assumed there is sufficient commitment to reform in the nutrition related sectors to provide a common basis for the action between the EU and GoN.</p> <p>It is assumed that the GoN will remain committed to PFM reform, macroeconomic stability, budget transparency and oversight improvement.</p>		

3 LESSONS LEARNT AND COMPLEMENTARITY

3.1 Lessons learnt

A key insight identified during the recent review of the EU / UNICEF PIN, was that the existing MSNP monitoring and evaluation framework requires considerable strengthening and effective operationalisation. Since the launch of MSNP-I in 2013 a coordinated review and / or evaluation has not yet been undertaken. Furthermore, there are significant opportunities to ensure that: (i) Monitoring and evaluation be approached not only as a core responsibility of government as duty bearers but crucially by CSOs representing citizens as rights holders; (ii) There is a greater recognition of the need for tracking outcome and output level indicators, as opposed to focusing on activities and impact; (iii) Innovative Monitoring and Evaluation (M&E) and accountability tools are developed and tested for municipality levels such as the introduction of a standardised "dashboards" for measuring progress, and with a strong focus on disaggregated data to reinforce the political commitment to tackle socio-economic inequalities and marginalisation.

3.2 Complementarity, synergy and donor coordination

The recently started EU budget support for the Agricultural Development Strategy (ADS)²¹ offers significant potential to support the mainstreaming of nutrition-sensitive interventions across various agriculture sector delivery mechanisms. Although one of the 6 performance indicators for disbursement of the variable tranches of this budget support is related to nutrition (reduction in prevalence of stunting), the synergies envisaged relate to ensuring a more systematic and embedded nutrition sensitive intervention logic. The action will also capitalise on synergies with the EU WAVE project²² via efforts to advance local level capacity development for services related to agriculture (home gardens), drinking water, and sanitation, especially for the poorest and most disadvantaged.

Donor Partners (DP) convene monthly in the Development partners food security group, which serves as an important platform for donor coordination and policy dialogue. The group is also the main platform in the agriculture sector. The main members of the group are ADB, EU, FAO, IFAD, SDC, UNICEF, USAID, WFP and WB. With respect to the MSNP, a Nepal Nutrition Group (NNG) has been established to facilitate coordination among DPs.

Opportunities for synergies across various initiatives supported by DPs extend beyond the agenda of simply "avoiding duplication". These initiatives include the USAID funded Suaahara II (2016-2021 involving US\$63 million), as well as several other important initiatives including health system strengthening (US\$25 million)²³, as well as the World Bank funded Global Agriculture and Food Security Programme (GAFSP²⁴) and the recently approved Food and nutrition security enhancement project (US\$ 28.7 million).

The action could also be leveraged to support the government to further enhance the nutrition sensitivity of its social protection policy (in particular with respect to the scaling up of the Child grant programme) on the basis of robust evidence and in alignment with the Constitutional right to food in Nepal.

Finally, there is a clear potential for strategic complementarity between this action and the other action of the AAP 2019 on federalism by contributing to the development of fully functional, sustainable, inclusive and accountable provincial and local governments.

²¹ The ADS Sector Reform Contract (2019 – 2021) involves a total EUR 40 million on which EUR 4 million is complementary support.

²² The WAVE project (water, energy, agriculture): Village livelihoods enhancement in the mid and far west regions) is co-financed with the government of Finland and government of Nepal.

²³ For instance, also including, Feed the Future, PAHAL, PRI, Sabal etc., as well as various governance restructuring projects.

²⁴ Although recently completed, this initiative targeted 190 Village development committees over a five-year period in 19 districts (Mid-western and Far-western regions) and included irrigation and farmer field school components to promote diversified production as well as intensive Behaviour change communication and the promotion of homestead nutrition gardens.

4 DESCRIPTION OF THE ACTION

4.1 Overall objective, specific objective(s), expected outputs and indicative activities

The **Overall objective** (impact) of the EU support reflects that of the MSNP-II, namely: *"To improve maternal, adolescent and child nutrition"*.

The **Specific objectives** (reflecting the expected outcomes of the MSNP-II) are as follows:

SO1: To improve the well-being of women, adolescents and children in terms of enhanced dietary quality (including diets of infants and young children), increased prevalence of exclusive breastfeeding, and use of improved sanitation and safe drinking water;

SO2: More equitable use of both nutrition specific and nutrition sensitive services, as prioritised by the MSNP-II;

SO3: The progressive strengthening of an enabling environment (improved policies, plans, governance mechanisms for multi-sectoral coordination at federal, provincial and local government levels) to ensure sustained commitment, resources and progressively enhanced capacities to address the causes of malnutrition.

Induced outputs: Enhanced access to and quality of nutrition-specific and nutrition-sensitive services; coordination between multi-sector nutrition planning and budgeting at federal, provincial and local levels improved; better management of multi-sector human resources.

The **Direct outputs** resulting from the EU budget support inputs focus primarily on ensuring greater government ownership and management of the reform and capacity development agenda at all levels:

- additional fiscal space created by transfer of funds and increased predictability of funds;
- a more aligned and coordinated policy dialogue and reduced transaction cost;
- enhanced joint sector review with a more credible performance assessment;
- implementation and monitoring capacity strengthened;
- the generation of a comprehensive national framework for nutrition related information management, (incorporating national surveys, regular sectoral management information systems and the national nutrition surveillance system currently being developed).

To achieve these outputs, the main indicative activities are:

Budget Support:

The main indicative activities to implement the budget support package are policy dialogue, financial transfers, capacity development and monitoring performance. In particular:

- Continued policy dialogue with the government, focusing on results, disbursement conditions of the Sector Reform Performance Contract (SRPC) and adequate implementation of complementary support;
- Regular monitoring with respect to macro-economic and PFM, as well as budget transparency;
- Preparation of the disbursement files and monitoring of performance targets and indicators to be used for disbursement;

- Participation as appropriate in federal and provincial level coordination mechanisms, sector meetings / reviews and technical working groups.

Complementary Support:

Complementary support will be delivered by UNICEF to strengthen the effectiveness of the programme:

- training and facilitation on multi-sectoral nutrition coordination and related activities for planning, budgetary execution and financial reporting at all levels;
- Activation and strengthening of common results framework and indicators through an MSNP-II Mid Term Review;
- Continued awareness raising activities at all levels and across sectors and stakeholders regarding the causes, consequences and key actions to address all forms of malnutrition;
- Knowledge management on MSNP implementation in the changing context of Nepal.

4.2 Intervention Logic

The overarching intervention logic of the proposed action is aligned with that of the government's national commitment for nutrition, and builds on the sustained efforts of EU financed programmes since 2011 in support of government efforts to implement its national multi-sectoral nutrition policy. Hence, the intervention logic centres on financing for results and capacity development by utilising both budget support and complementary support to strengthen the comprehensive and holistic approach of Nepal's MSNP.

This combination of modalities will ensure, through financial transfers combined with policy dialogue and technical assistance for capacity development, that increased numbers of citizens, particularly women, adolescents and children, will have been equitably reached via a range of public services prioritised by the MSNP-II to improve nutrition.

As confirmed by international evidence²⁵, such achievements can be expected to further accelerate efforts to eradicate poverty and reduce inequalities, thereby promoting sustainable and inclusive growth in Nepal.

Budget support will provide the Ministry of Finance with greater fiscal space to make timely payments to the key sectors. Harnessing the opportunities unleashed by the federal transition and taking forward the recommendations for reinforcing nutrition governance as per the 2018 medium term review of the PIN, the complementary support component of the action will focus in particular on strengthening functional capacities of delivery systems in municipalities. Assisting in the clarification of roles and responsibilities for policy implementation and accountability mechanisms at all levels, as well as across different stakeholders including civil society and the private sector, will also be key to the intervention logic.

The generation of convincing evidence to confirm the effectiveness of nutrition related investments is also expected to play a crucial role in terms of sustaining political and financial

²⁵ Repositioning nutrition as central to development, WB:

<http://siteresources.worldbank.org/NUTRITION/Resources/281846-1131636806329/NutritionStrategyBrochure.pdf>

commitment to the MSNP. Where appropriate, the programme will pay attention to ‘budget work’, which can include budget analysis, but also encompasses work such as expenditure tracking of various sorts, assessments of the impact of government expenditures, community education about the budget, advocacy related to the way the budget impacts for example the poor and/or the populations living in vulnerable situations.

4.3 Mainstreaming

The two most significant cross cutting issues of relevance to this action relate to the promotion of gender-equality and rights-based approaches.

Given that the root causes of malnutrition include multi-dimensional poverty, inequality and discrimination, the proposed action builds on the commitment of the Commission to adopt a human **rights-based approach** to development cooperation²⁶. In Nepal, where inequalities in stunting are increasing, it is crucial that a rights-based approach continues to be central to the policy direction of the MSNP and integrated in the programme. More disaggregated data leading to meaningful ownership of the development process by municipalities will be vital to ensure that marginalised and vulnerable populations are not left behind in the SDG agenda. The approach will also focus on implementation of integrated local development plans, unleashing local potential and greater accountability to local populations.

Gender equality is explicit in the proposed action's emphasis on reducing disparities, and improving nutrition priorities at local level. This is in line with Nepal's Constitution, which marks significant progress on gender equality. Because gender equality and empowerment of women and girls are closely linked to nutritional outcomes and good nutrition throughout the life cycle, the approach to tackling nutrition must ensure that the specific needs and roles of women are considered in order to work towards sustainable and inclusive solutions. Girls and women in Nepal face numerous challenges in their everyday life ranging from the ill effects of early marriage to psychological, sexual and gender-based violence. Despite their potential, women face many barriers to increasing agricultural productivity and achieving food and nutrition security for themselves and their families.

Given the high share of women working in agriculture, a priority for this action, is to ensure that transformative objectives, associated with empowering women and advancing gender equality, are meaningfully operationalised. For instance, important opportunities exist for rural extension services to more effectively engage with female farmers and to recognise their roles in production beyond being an "add-on" to their domestic tasks. Likewise, with respect to gender inequalities associated with land tenure, even when statutory law may be non-discriminatory, still much remains to be done to tackle traditional practices - which may continue to disadvantage women who may not be aware or able to effectively claim for their legal rights. The increased representation of women in ward and municipality governance structures coupled with experience with respect to operationalising the Gender Equality and Social Inclusion (GESI) approach as well as the introduction of a gender responsive budget

²⁶ https://ec.europa.eu/europeaid/sectors/rights-based-approach-development-cooperation_en and https://ec.europa.eu/europeaid/rights-based-approach-encompassing-all-human-rights-eu-development-cooperation-tool-box-commission_en

system, provide valuable opportunities for ensuring that gender equality is optimally incorporated into strategies for capacity development and enhanced accountability.

Moving forward the envisaged mid-term review of the MSNP and proposed capacity assessment for nutrition can be supported to ensure that the improvement, development and evaluation of policy processes fully incorporates a gender equality perspective at all levels and at all stages, by the actors normally involved in policy-making.

4.4 Contribution to SDGs

The intervention is relevant to the 2030 Agenda. It contributes to the progressive achievement of SDG(s) 2 (zero hunger) and 3 (good health and well-being), while also contributing to SDG 1 (no poverty), SDG 5 (gender equality) and SDG 6 (clean water and sanitation).

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Decision and the relevant contracts and agreements.

5.3 Implementation of the budget support component

5.3.1 *Rationale for the amounts allocated to budget support*

The amount allocated for the budget support component is EUR 20 000 000, and for complementary support is EUR 3 350 000. This amount is based on an assessment of an effective strategic balance between (i) direct financial support for a period of two years (FY 2020/2021 and FY2021/2022); and (ii) a three-year period of technical support by UNICEF covering the period from 2020 – 2022.

The total amount allocated to the fixed tranches will be EUR 10 000 000 with an equal amount of EUR 10 000 000 also allocated to variable tranches to underscore the significance of results orientation. Financial allocations will be spread across variable tranche indicators to reflect priority areas of focus. Overall, the amount allocated to budget support corresponds to approximately 13% of the yearly MSNP estimated costs and 31% of the total resources expected by the GoN from external DPs in the indicative MSNP-II budget breakdown over a two-year period.

5.3.2 *Criteria for disbursement of budget support*

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the MSNP-II and continued credibility and relevance thereof;
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;

- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme;
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

b) The performance indicators for disbursement that may be used for variable tranches are related to the following areas:

- (i) Nutrition enabling environment at local level (indicator: number of local governments with a nutrition and food security steering committee having nutrition and food security programmes and targets in line with the MSNP in their annual/periodic plans);
- (ii) Extension support to diversification of agriculture is accompanied by activities to promote awareness of the importance for nutrition of dietary diversity (indicator: percentage of children aged 6–23 months having minimum dietary diversity – one of the two component of an acceptable diet);
- (iii) Provision of nutrition specific services in local health facilities (indicator: percentage of 6-59 months children with acute malnutrition treated);
- (iv) Nutrition friendly environment in schools (indicator: number of schools providing safe drinking water);
- (v) Scaling up of nutrition sensitive social protection schemes (indicator: number of local governments providing child grants to children under 5 years old).

The chosen performance indicators and targets to be used for disbursements will apply for the duration of the action. However, in duly justified circumstances, the Ministry of Finance may submit a request to the Commission for the targets and indicators to be changed.

Note that any change to the targets should be agreed ex-ante at the latest by the end of the first quarter of the assessed year. The agreed changes to the targets and indicators shall be agreed in advance and may be authorised in writing (either through a formal amendment to the financing agreement or an exchange of letters).

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

The budget support will be provided in the form of a mix of fixed and variable tranches with the following indicative amounts and timetable (EUR):

Indicative Timing	Q1 2021	Q1 2022
Fixed tranche	5 000 000	5 000 000
Variable tranche	5 000 000	5 000 000
Total	10 000 000	10 000 000

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Nepali Rupees will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4 Implementation modalities for complementary support to budget support

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures²⁷.

5.4.1 *Indirect management with an international organisation*

A part of this action may be implemented in indirect management with UNICEF. This implementation entails support to the progressive strengthening of an enabling environment (SO3) by enhancing capacity to multi-sectoral nutrition coordination, planning, monitoring and reporting as well as improved knowledge and awareness on the causes, consequences and key priority actions to address malnutrition in Nepal. It capitalises on the existing experience and relations established during the EU / UNICEF PIN due to close at the end of 2019.

The envisaged entity has been selected using the following criteria:

- Internationally recognised expertise; extensive working experience in the nutrition sector;
- Sufficient logistical and management capacities in Nepal to deploy nationwide;
- Managerial capacity, expertise and long-standing experience and credibility in directly implementing and liaising with relevant stakeholders (including government institutions, NGOs, local communities, the private sector and other DPs and UN agencies) in Nepal.

Currently UNICEF is strategically best placed to add value to the EU's interaction with the GoN in the implementation of MSNP-II, and enjoys the highest levels of access to senior Nepal stakeholders.

In case the envisaged entity would need to be replaced, the Commission's services may select a replacement entity using the same criteria. If the entity is replaced the decision to replace it needs to be justified.

5.4.2 *Procurement (direct management)*

To contribute to the direct output "enhanced joint sector review with a more credible performance assessment" it will be necessary to carry out external reviews or data verification exercises to inform disbursement decisions and to contribute to strengthening the policy monitoring framework and national statistical systems. To this end, external technical assistance will be contracted in direct management.

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

²⁷ www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

	EU contribution (amount in EUR)	Indicative third- party contribution, in currency identified
Budget support (cf section 5.3)	20 000 000	
Specific Objective 3 composed of		
Indirect management with UNICEF (cf section 5.4.1)	3 000 000	1 000 000
Procurement – direct Management (cf section 5.4.2)	100 000	
Evaluation, (cf. section 5.9), Audit (cf. section 5.10)	100 000	N.A.
Communication and visibility (cf. section 5.11)	150 000	N.A.
Totals	23 350 000	1 000 000

5.7 Organisational set-up and responsibilities

The indicative steering arrangements for this programme will both harness and strengthen the existing multi-sectoral institutional architecture adopted by MSNP-II, and as summarised in Section 1.4 above, with the highest level of coordination mechanism for MSNP-II being the High-level nutrition and food security steering committee, chaired by the Honourable vice-chair of the NPC as the apex advisory body of the GoN. With the envisaged role of the Ministry of Home Affairs with respect to social protection as a priority sector for nutrition it will be important to ensure that their engagement at the highest level is secured. It's also important ensuring that the EU, as part of its policy dialogue, participates in the National nutrition and food security coordination committee to review progress and strategize future actions (chaired by the Honourable member of the NPC). Within this and other existing structures as well as through bilateral meetings, the EU Delegation will ensure regular policy dialogue with GoN, DPs and civil society.

Technical support provided by UNICEF will be paramount to the achievement of expected results and will contribute directly and effectively through-out the time frame of the action to the significant reinforcement of the National Nutrition and Food Security Secretariat (NNFSS) as well as the newly established provincial and local level institutional architecture for MSNP-II.

The Ministry of Finance will be responsible for formally requesting the annual disbursements and providing adequate reporting demonstrating the fulfilment of the agreed disbursement conditions.

5.8 Performance and Results monitoring and reporting

The performance monitoring will be carried out yearly by the GoN jointly with the EU Delegation. With regard to the performance monitoring of the general conditions for disbursement eligibility criteria, the Ministry of Finance will report on macroeconomic performance improvements in PFM and budget transparency. The NNFSS, supported by relevant government ministries, will take the lead on overall reporting on the eligibility criteria and assessment of variable tranche indicators and targets.

The day to day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the partner's strategy, policy or reform action plan list (MSNP-II).

SDGs indicators and, if applicable, any jointly agreed indicators as for instance per joint programming document should be taken into account.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 Evaluation

Having regard to the importance of the action, a final evaluation will be carried out for this action through a joint mission composed of at least the GoN and the EU representatives contracted by the Commission. Other parties could be invited by common agreement.

It will be carried out for accountability and learning purposes at various levels (including for policy revision) taking into account in particular the opportunity for this action to be synchronised with the EU action "Federalism support in Nepal".

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 30 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner

country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

It is foreseen that audit services may be contracted under a framework contract.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures, which shall be based on a specific Communication and visibility plan of the Action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and contribution agreements.

The Communication and visibility requirements for European Union external action (or any succeeding document) shall be used to establish the communication and visibility plan of the Action and the appropriate contractual obligations.

Communication and visibility actions may be contracted under a framework contract.

APPENDIX – INTERVENTION LOGIC TABLE (FOR BUDGET SUPPORT)²⁸

	Results chain	Indicators (max. 15)	Baselines (year)	Targets by the end of the budget support contract (year)	Sources of data
Expected impact of the policy (Overall objective)	<i>To improve maternal, adolescent and child nutrition</i>	1.Prevalence of stunting among under 5 years children* ** 2.Prevalence of wasting among under 5- years old children* ** 3.% of women with chronic energy deficiency (measured as body mass index)	35.8 (2016) 10 (2016) 17 (2016)	28 (2022) 7 (2022) 12 (2022)	NDHS/NMICS (for all)
Expected outcomes of the policy (Specific objective(s))	SO1: To improve the well-being of women, adolescents and children in terms of enhanced dietary quality (including diets of infants and young children), increased prevalence of exclusive breastfeeding, and use of improved sanitation and safe drinking water	1.1.% of children aged 6-23 months having minimum acceptable diet** 1.2.% of adolescent girls (10-19 years) with anaemia 1.3.% of children under 6 months with exclusive breastfeeding** 1.4.% people using safe drinking water**	35 (2016) 39 (2016) 66 (2016) 26.6 (2017)	60 (2022) 25 (2022) 80 (2022) 52.5 (2022)	NDHS/NMICS NDHS/NMICS NDHS/NMICS Joint Monitoring

²⁸ Mark indicators aligned with the relevant programming document with '*' and indicators aligned to the EU Results Framework with '**'. Indicators used within variable tranches must be flagged in **bold**.

					Programme (WASH)
	SO2: More equitable use of both nutrition specific and nutrition sensitive services, as prioritised by the MSNP-II	2.1.% of population below minimum level of dietary energy consumption	22.8 (2014)	11 (2022)	SDG Status report, NMICS
		2.2.% of children 6-59 months with acute malnutrition treated			
		2.3.# Schools providing safe drinking water (cumulative)	70 (2017)	>90 (2022)	HMIS
		2.4.# of Local government providing child grants to children under 5 year old	0	485 (2022)	EMIS
	SO3: The progressive strengthening of an enabling environment (Improved policies, plans, governance mechanisms for multi-sectoral coordination at federal, provincial and local government levels) to ensure sustained commitment, resources and progressively enhanced capacities to address the causes of malnutrition		203 (2017)	372 (2022)	Report of Dept of Civil Registration (DoCR)
		3.1. # of local government with nutrition related targets in their plans and programmes and with Nutrition and Food Security steering committee meeting twice a year*	308 (2018)	381 (2022)	AWP, meeting minutes
		3.2. % of Multi-sector nutrition budget out of total government budget* **	1.5 (2017)	3.5 (2022)	MoF red book
Induced outputs	<ul style="list-style-type: none"> Enhanced access to and quality of nutrition-specific and nutrition-sensitive services coordination between multi-sector nutrition planning and budgeting at federal, provincial 	<p>Number of local governments with integrated management of acute malnutrition (IMAM) programme</p> <p>Number of local government with MSNP targets/indicators in their</p>	302 (2017)	520 (2022)	HMIS

	<p>and local levels improved</p> <ul style="list-style-type: none"> • better management of multi-sector human resources 	<p>plans</p> <p>Number of local agriculture and livestock trained**</p> <p>National Capacity Development Master Plan for implementation of MSNP-II*</p>	<p>194 (2017)</p> <p>N.A.</p> <p>N.A.</p>	<p>381 (2022)</p> <p>1 488 (2022)</p> <p>Produced in 2020</p>	<p>AWPB of local governments</p> <p>MoALD training reports</p> <p>Capacity Development Plan</p>
Direct outputs	<ul style="list-style-type: none"> • a more aligned and coordinated policy dialogue and reduced transaction cost • enhanced joint sector review with a more credible performance assessment • implementation and monitoring capacity strengthened • the generation of a comprehensive national framework for nutrition related information management, (incorporating national surveys, regular sectoral management information systems and the national nutrition surveillance system currently being developed) 	<p>Number of formal policy dialogue</p> <p>Number of annual joint review conducted</p> <p>Number of districts with MSNP M&E framework for all concerned sectors</p> <p>Number of local governments with nutrition emergency preparedness and response or contingency plan</p>	<p>N.A.</p> <p>30 (2017)</p> <p>50 (2017)</p>	<p>2 (2022)</p> <p>272 (2022)</p> <p>500 (2022)</p>	<p>Meeting minutes</p> <p>NPC</p> <p>Contingency plans and preparedness plan</p>