



The World Bank

Investing in Forests for Prosperity at a Time of Transformation (P170798)

Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 07-Mar-2020 | Report No: PIDA28187

**BASIC INFORMATION****A. Basic Project Data**

Country Nepal	Project ID P170798	Project Name Investing in Forests for Prosperity at a Time of Transformation	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Appraisal Date 09-Mar-2020	Estimated Board Date 13-May-2020	Practice Area (Lead) Environment, Natural Resources & the Blue Economy
Financing Instrument Investment Project Financing	Borrower(s) Nepal	Implementing Agency Ministry of Forests and Environment	

Proposed Development Objective(s)

The Project Development Objective (PDO) is to improve sustainable forest management; increase benefits from forests and contribute to net Greenhouse Gas Emission (GHG) reductions in selected municipalities in Province 2 and Province 5 in Nepal.

Components

Policy & capacity building support for new government structures and processes for sustainable forest management
Community-based sustainable forest management and smallholder forest plantations

Forest enterprise improvement and development

Project management, monitoring and learning

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	24.00
Total Financing	24.00
of which IBRD/IDA	0.00
Financing Gap	0.00

DETAILS**Non-World Bank Group Financing**



Trust Funds	24.00
Strategic Climate Fund Credit	17.90
Strategic Climate Fund Grant	6.10

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **A new government, backed by an unprecedented majority in Parliament, took office on February 15, 2018.** This follows successful elections for all three tiers of government (local, provincial and federal) of the new federal state architecture defined by Nepal's constitution, marking a protracted-but-successful conclusion of a political transition that began with the signing of the Comprehensive Peace Agreement in November 2006. Provincial governments largely mirror the coalition at federal government level. At the sub-national level, funds, functions and functionaries hitherto managed by the central, district and village authorities have moved to seven new provinces and 753 local governments for which new legislation, institutions and administrative procedures are being formalized as constitutionally prescribed. Meanwhile, the federal level authority is being streamlined with a focus on national policies and oversight. This profound level of state restructuring is expected to result in improved outreach and service delivery in the medium term but is likely to take time before becoming fully operational.

2. **Nepal's economy and job market heavily depend on the use of natural resources but do not generate benefits to its full potential.** The agriculture sector employs about 76 percent the workforce¹. Subsistence farming as still practiced over much of the country depends on the close integration of agriculture with forests for energy (fuel), building materials, fodder, food, medicine and environmental services such as soil and water conservation. The direct contribution of the forestry sector to Nepal's GDP has been estimated at about 3.5 percent²; however, considering the indirect benefits derived by agriculture and tourism, the real figure is estimated to be closer to 10.5 percent³. Nepal's forest rent was 1.3 percent of GDP 2016. Full-time equivalent

¹ ERI, 2011. *Employment in Nepal's Forest Sector*. Livelihoods and Forestry Program, Kathmandu

² REDD+ Implementation Center, 2015. *Analytical study on assessing the value of forests, the political economy of land use and the carbon emissions from the drivers of DD – Forest sector total economic valuation report for Nepal*. REDD Implementation Center, Ministry of Forest and Soil Conservation, Government of Nepal cited in Rai et al (2017)

³ Rai, R.K.; Nepal, M.; Karky, B.S.; Somanathan, E.; Timalsina, N.; Khadayat, M.S.; Bhattacharai, N. (2017) *Costs and benefits of reducing deforestation and forest degradation in Nepal*. ICIMOD Working Paper 2017/5. Kathmandu: ICIMOD



jobs in Nepal associated with the forest sector have been estimated at 9.23 percent of the economically active population⁴.

Sectoral and Institutional Context

3. The government's forest sector strategy and forest policy are grounded on the goal to increase forests' contribution to national prosperity and climate change mitigation. The 2016 Forest Sector Strategy and the National Forest Policy 2019 describes the vision of the government of Nepal as one where the "potentials of forest ecosystems, biodiversity and watersheds are fully optimized for peoples' prosperity". The documents also provide that forest ecosystems and watersheds are managed to be sustainable and climate resilient through a decentralized, competitive, and well-governed forest sector providing inclusive and equitable incomes, employment, and development opportunities. Sustainable Forest Management (SFM) is mentioned as a tool for achieving the forestry ministry's vision of "Forests for Prosperity". In its Nationally Determined Contribution (NDC) (2016) to address climate change, the Government of Nepal has committed to reduce greenhouse gas emissions from deforestation and forest degradation.

4. Nepal's total forest area (including shrubs)⁵ is 6.4 million ha representing a forest cover of 45 percent of the land area. The growing stock of Nepal's forests is estimated to be 982.3 million m³, with an average stocking of 165m³/ha. The mean carbon stock of Nepal's forests (including above and below ground biomass and soil carbon) is 176.9 t/ha with 62 percent of this in the trees. Most forest is state-owned, with private forests occupying less than one percent (although they are increasing). State-owned forests are further divided into protected areas and national forests, with the latter comprising government-managed forests, community forest, collaborative forest, leasehold forest, forest conservation areas and religious forest.

5. Although Nepal is richly endowed with forest resources, the forest sector productivity is low with the country importing timber and wood products. Officially reported harvests of roundwood from 1999 through 2005 range from about 26,000 to 80,000 m³/year, averaging about 60,000m³/yr⁶. It is estimated that about 1.2 million m³ of fuelwood and 900,000 m³ of timber could be sustainably harvested annually, generating full and part time employment opportunities for 4.8 million people, while contributing more towards carbon sequestration and storage. After several decades of effective protection, a significant area of forest under community-based forest management (CBFM) now has potential for the sustainable production of timber and non-timber forest products (NTFPs) to help meet rural livelihood needs, sustain local forest-based enterprises and jobs, and substitute imports.

6. The 2015 Constitution involves a major transformation of forest sector governance. New opportunities have been created for enhancing forestry sector governance and the regulatory framework by (i) strengthening local level accountability and responsibility, and (ii) tailoring regulatory provisions to meet the needs of individual provinces. Each province is now empowered to develop its own policy and regulatory framework (including forestry), to collect taxes and share revenues from natural resource use. This includes governing and regulating forest management and natural resource use. As part of the federalization process, the Federal Government has recently passed a new Federal Forest Act (2019) and Provincial and Local Governments are now expected to follow suit by developing their own legislation and regulations that reflect their new roles and

⁴ ERI, 2011. *Employment in Nepal's Forest Sector*. Livelihoods and Forestry Program, Kathmandu

⁵ DFRS, 2015. *State of Nepal's Forests. Forest Resource Assessment*, Nepal. MoFSC, Kathmandu

⁶ Magrath, William B., Ashish Shrestha, Bhishma Subedi, Hari Bansha Dulal, and Rex Baumback. 2013. *Nepal Forest Sector Survey: Policy priorities and recommendations*. Washington, DC: Program on Forests (PROFOR).



responsibilities. Technical, administrative and managerial capacity needs to be established across the new government structures. Civil society organizations, NGOs, communities and the private sector also need to understand their new roles, responsibilities, and opportunities for engagement. The procedures and protocols to transfer forests to CBFM groups for their management under the new 3-tier federal government will be clarified soon.

7. CBFM has been successfully implemented over the past 30 years and is the key factor in reversing deforestation and forest degradation in Nepal. Based on an unprecedented and long-lasting partnership, the government has gradually transferred national forests to communities for their management under various models⁷. CBFM was originally promoted to achieve forest conservation and meet household forest product subsistence requirements⁸. Yet, CBFM has the potential to meet not only conservation goals but also contribute to the domestic demand for timber and other forest-products. About 2.23 million hectares (34 percent) of Nepal's forests are now managed by 22,266 community forest user groups (CFUG) representing 2.9 million households. Poorer households have been effectively supported through land allocation for fodder and NTFP production inside community managed forests. This approach has significant scope for expansion⁹. CBFM remains a mainstay of Nepal's Forest Sector Strategy (2016) and is a priority development program under Nepal's 15th National Development Plan along with forest-based enterprise development and ecotourism. The Government of Nepal intends to hand over additional forest areas to communities for SFM, balancing socio-economic and environmental objectives.

8. Small and medium-sized forest-based enterprise (SMEs) development is hampered by several constraints. Forest-based SMEs could generate more than US\$8.7 billion annually and 1.38 million work days through 400,000 sustainable full-time equivalent green jobs¹⁰. Yet, small entrepreneurs are poorly integrated, have no access to modern technology that could reduce waste, increase the value and quality of their products and help reduce timber imports. Development of SMEs is constrained by complex, time consuming, and incomplete regulatory requirements. Nepal ranks 110 out 190 countries in the Ease-of-Doing-Business Report. Business development services are not available, including support to develop sustainable business management plan and to produce and sell commercially viable products. The Nepal Rastra Bank does not classify forestry as a productive sector, hence commercial banks are unwilling to give loans for forestry investments. Other impediments include lack of market access and information services for micro/small forest-based enterprises in rural communities.

9. Forests remain important livelihood assets for poorer or landless people in rural communities yet employment and income earning opportunities remain scarce contributing further to out-migration. Migration of mainly young males to cities and abroad has left an aging and gender-biased population in rural areas. Improved road connectivity and availability of other forms of communication combined with improved access to education and the impacts of the lengthy conflict period has led to significant out-migration from rural to urban areas and foreign destinations, especially by younger, economically active males. Remittances now form a major portion of household incomes whilst reduced availability of farm labor and improved market access

⁷ The modalities under community-based forest management are community forestry, collaborative forestry, leasehold forestry, and protected area buffer zone management.

⁸ Springate-Baginski & Blaikie, 2007. Forests, people and power: the political ecology of reform in South Asia

⁹ E.g. Livelihood and Forestry Programme (LFP) 2000-2011; Multi-Stakeholder Forestry Programme (MSFP) 2011-16

¹⁰ MFSP, 2014. Potential of Forestry Sector in Economic Growth and Development: Short Concept Notes on five themes. Kathmandu, Nepal.



has led to changes in the former subsistence agriculture with a shift towards cash crops, reduction in livestock and abandonment of marginal and less productive land. Dependency on local forests for energy, fodder, building materials and other forest products has reduced, especially for better-off households.

10. Women's involvement in commercial forest sector activities is limited. Traditionally, women have been involved in collection and utilization of subsistence forest products, whilst timber harvesting, especially for commercial sales, and forest product utilization and processing involving skilled work and business opportunities have been male dominated. The potential for the forest sector to generate paid employment and equal opportunities in skilled and entrepreneurial positions has not been realized. Creation of such opportunities is now particularly relevant given the extent of rural, male out migration and the enhanced educational levels of women and girls.

11. Land use patterns in rural areas are changing. Less productive areas of privately-owned farmland in both the Terai and mid-hills are increasingly coming out of agricultural use, primarily due to lack of farm labor or sometimes because of excessive wildlife damage to crops adjacent to protected areas. In the Terai, underutilized farm land often has no irrigation whilst in the mid-hills it may be steep with thin rocky soils and tiny terraces only cultivable under rainfed agriculture. Owners are keen to utilize these lands more productively in less labor intensive ways than agriculture.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The Project Development Objective (PDO) is to improve sustainable forest management; increase benefits from forests and contribute to net Greenhouse Gas Emission (GHG) reductions in selected municipalities in Province 2 and Province 5 in Nepal.

Key Results

12. The short-to medium-term outcomes are expected to increase overall forest productivity. This will be achieved by moving from a conservation and subsistence-oriented approach to sustainable forest management and to establish smallholder forest plantations on public and private lands. Sustainably managed forests and plantations will provide monetary and non-monetary benefits¹¹ to communities and entrepreneurs, including income from sales of timber and non-timber forest products (NTFPs) and salaries from forest-based jobs. A total of 513,406 people will benefit from the project. SFM and plantations will increase carbon sequestration and reduce net greenhouse gas emissions. The project will directly benefit the communities, including women and disadvantaged groups participating in CBFM as well, and small and medium sized entrepreneurs (and their employees) involved in forest product harvesting, sale, transport and processing.

13. The project will have the following PDO indicators:

- Forest area under CBFM with sustainable forest management plans (ha)
- People in targeted forest and adjacent communities with increased monetary or non-monetary benefits from forests (#, disaggregated by gender and ethnic group)
- Net GHG emissions (tons CO₂ eq.)
- Share of project beneficiaries who report being satisfied with project interventions (livelihoods, forest

¹¹ Non-monetary benefits from SFM: ecosystem services such as habitat provisioning, biodiversity, regulating and provisioning services.



management, other)(percent, disaggregated by gender and ethnic group)

D. Project Description

14. The proposed investment project will build on the following three premises: (i) while community-based forest management is a proven concept for managing forests for conservation and subsistence it has also the potential to meet Nepal's demand for timber and increase income through the promotion of sustainable forest management; (ii) to meet Nepal's demand for quality timber (sawn log) and non-timber forest products (through value-addition), small and medium forest-based enterprises need to be developed; and (iii) to make informed decisions on (i)-(ii), the new structures and institutional arrangements emerging from the federalization process need support to be able to understand fulfill the new roles and responsibilities related to sustainable forest management.

15. The proposed project will have 4 components:

- i. Strengthening the enabling environment at all levels of government and processes in the forestry sector
- ii. Community-based sustainable forest management and forest plantations
- iii. Forest enterprise improvement and development
- iv. Project management, monitoring and learning

Legal Operational Policies

Triggered?

Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

16. **Environmental risk is rated Substantial.** The project supports community-based sustainable forest management, enterprise development for local small- to medium-scale timber utilization industries, and implementation of new governance arrangements in the forest sector to support the shift to a federal form of government, one in which community groups are ever-more involved in sustainable forest management planning, implementation and harvesting. Specifically, the project will support the updating and/or development of community forest management plans; fencing and protection of community-managed forests; procurement of seedlings and materials to establish tree nurseries; site preparation for tree planting and the planting itself; soil and water conservation measures; fire management measures; and maintenance, monitoring and rearing of planted trees. These will all be done at the community level based on an approved community forest management plans, which the local communities themselves--and other stakeholders such as indigenous peoples' groups and NGOs--will develop or have developed. The project also supports a tailored capacity building program for federal, provincial and municipal/ local governments, Financial Intermediaries (FIs) and small and medium forest enterprises in terms of sustainable forest management. The key environmental risks of the project relate to unsustainable practices and activities such as (i) over-harvesting of trees and NTFPs and setting harvesting quotas too high (annual allowable cut); (ii) implementation of activities in hotspot areas, critical habitats, and/or protection zones (even though the project will not support any activities taking place in protected areas or their buffer zones); or (iii) implementation of activities that would involve the significant use



of chemical pesticides. In addition, project support to procuring harvesting equipment and sawmills may lead to indiscriminate harvesting and cutting of trees. Other potential environmental risks include the use of chemicals and production of waste materials associated with forest-based enterprises.

17. All these risks could potentially materialize if there is deterioration in forest governance as a result of either (i) a failure or a delay in operationalizing decentralization policies in the sector and building capacity at the three tiers of government, or (ii) the too-quick decentralization of functions with capacity and readiness of sub-national entities not keeping up with the speed of the decentralization process. Given the scale of investments and the nature of activities, which are mainly community-based building on more than 2 decades of best practices with CBFM and small to medium scale enterprise improvements and development, and the uncertainty of how the ongoing decentralization process will proceed and turn out, environmental risk is assessed to be Substantial. Other significant risk will be due to the weak capacities at the local government level in the management of natural resources and the concomitant risk of the over-exploitation of these resources.

18. **Social risk is also rated Substantial.** Many of the risks already described above relate to social dynamics that will both provide the setting for and result from the project at the sub-national (provincial, municipal and local) levels. The approval and implementation of community forest management plans that local communities and other stakeholders such as indigenous peoples and NGOs will develop themselves will help to build community-level ownership and contribute to overall sustainability. These management plans will be gender sensitive, in line with a Gender Action Plan developed for the project, and women will also have a chance to participate more fully in forest governance structures. At the same time, in areas where community members are not used to entering into more collaborative modes of forest management (and to the restrictions on natural resources use that come along with that), or there is otherwise a legacy of conflict or mistrust between locals and government officials, the proposed shift to community-based sustainable forest management (SFM) could slow down considerably or not take hold at all. The high degree of socio-cultural diversity in the project area provides another layer of risk. Over the past few decades, the Terai Region in particular has become a major agricultural frontier, drawing large numbers of migrants from the Mid-Hills and Mountains Regions of Nepal. This has led to a rich inter-mixture of cultures and influences in the Terai and Chure Regions, together with a certain amount of socio-political ferment both during and after the country's civil war (such as the successive "Madhesi movements"). In certain areas such historical factors may conspire to increase the chance that disadvantaged or otherwise vulnerable groups, such as indigenous peoples or female-headed households, will be excluded from participating in or benefiting from the project, either because of lack of community capacity to form CBFM groups or participate in forest enterprise development; limitations in local governments' ability to engage in proper social risk assessment and follow up; resistance from community members for ideological reasons; or a combination of these. All of this could be complicated even further by snags in the decentralization process, as mentioned above, and the associated deterioration in forest governance. For all these reasons, social risk is assessed to be Substantial.

E. Implementation

Institutional and Implementation Arrangements

A. Institutional and Implementation Arrangements

19. **MoFE will be responsible for the overall management and coordination of the project.** However, project activities under Components 1, 2 and 3 and 4 will be executed by all three tiers of government including MoFE, the Ministries of Industry, Tourism, Forests and Environment (MoITFE) in Provinces 2 and 5, and Local Governments in the 50 selected municipalities in these provinces. These institutions will work directly with



CBFM groups of various kinds, with service providers and with private farmers. Three Project Implementation Units (PMUs) will be established: one in the federal MoFE and one each in the two provincial MoTFEs. Each PMU will be headed by a project coordinator (PC) and will have technical, financial management, procurement, M&E and administrative staff. Project oversight and accountability will be provided by three project steering committees which will include representatives from government (MoFE and MoF) and their provincial government equivalents and local government representatives (selected from participating municipalities), community representatives (selected by networks of CBFM groups covered by the project), and private sector representatives from forest-based industry. At local government level multi-stakeholder forums will be established for the project and will coordinate with formal local government structures.

B. Results Monitoring and Evaluation Arrangements

20. **The PMU in the federal MoFE will have the overall coordinating role of the M&E function.** The project coordinator will ensure that data and information from the provincial-level PMUs are produced and collected on time and are of good quality. A web-based project management and monitoring platform to integrate the information coming from different sources and levels will be created (component 1). A beneficiary feedback loop will be established to strengthen citizen engagement at all levels. Gender-related indicators have been developed and so have applicable corporate results indicators. Internal monitoring will be carried out by MoFE where the Project Coordinator will receive monthly progress reports from each PMU.

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