

**COMBINED PROJECT INFORMATION DOCUMENTS/
INTEGRATED SAFEGUARDS DATA SHEET (PID/ISDS)**

APPRAISAL STAGE

Report No.: 154708

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I. BASIC INFORMATION

A. Basic Project Data

Country:	Nepal	Project ID:	P165375
Project Name:	Nepal ER-Program for the Terai Arc Landscape (P165375)		
Region:	South Asia		
Task Team Leader(s):	Andrea Kutter/Rajesh Koirala		
Estimated Board Date:	NA		
Practice Area (Lead):	Environment, Natural Resources & Blue Economy Global Practice		
Lending Instrument:	Carbon Finance - Emission Reductions Payment Agreement (ERPA)		
Sector(s):	Environment		
Theme(s):	Forestry		
Implementing Agency:	Ministry of Forests and Environment		
Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)?			No
Project Financing Data (in USD Million)			
Total Project Cost:	45.0	Total Bank Financing:	
Financing Gap:	0.0		
Financing Source			Amount
BORROWER/RECIPIENT			
Forest Carbon Partnership Facility Carbon Fund			45.0
Trust Funds			0.0
Total Project Cost			45.0
Environmental Category:	B - Partial Assessment		
Is this a Repeater project?	No		
Is this a Transferred project?	Yes		

B. Introduction and Context

Country Context

A new government, backed by an unprecedented majority in Parliament, took office on February 15, 2018. This follows successful elections for all three tiers (local, state and federal) of the new state architecture defined by the 2015 constitution, marking a protracted-but-successful conclusion of a political transition that began with the signing of the Comprehensive Peace Agreement in November 2006. State governments largely mirror the coalition at the center. At the sub-national level, funds, functions and functionaries hitherto managed by the central, district and village authorities are moving to the seven new provinces and 753 local governments for which new legislation, institutions and administrative procedures are being formalized as constitutionally prescribed. Meanwhile, the central 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.

Over the past decade, Nepal's economy has performed reasonably well. Real growth domestic product (GDP) growth averaged 4.9 percent (at market prices) over 2010-19. Although declining as a share in the economy, agriculture continues to play a large role, contributing over 29 percent of GDP in FY2019. The service sector has grown in importance, accounting for 46 percent of GDP in FY2019. Industry and manufacturing have grown more slowly and their relative share in the economy has averaged 14 percent of GDP over the past decade. Similarly, exports continue to struggle, while imports are fueled by remittances. Remittances have remained stable, with its share as a percentage of GDP averaging 24.5 percent, supported by an increased transfer of funds through formal channels in recent years. Inflation has been in single digits for most of the past decade, with the peg of the Nepalese rupee to the Indian rupee providing a nominal anchor. Fiscal balances remained sustainable owing to strong revenue growth and modest spending. However, the federal government is now sharing revenue and transferring grants to provincial and local governments, as part of the recent reforms linked to federalism. The poverty headcount ratio (at the international line of US\$1.90/day) is estimated at 8 percent in 2019, down from 15 percent in 2010. At a higher line (US\$3.20/day), 39 percent of the population is estimated to be poor in 2019, which is a decline of more than 10 percentage-points from 2011. Despite the declining poverty trend, vulnerability remains high. Almost 10 million people (close to 29 percent of the population) are estimated to live between US\$1.9 and US\$3.2 a day in 2019 and face a significant risk of falling into extreme poverty, should a shock occur.

GDP growth was 7.1 percent in FY2019 backed by tourism and strong agricultural growth; in FY2020, the COVID-19 pandemic is expected to cause a large reduction in growth. The service sector grew by 7.5 percent in FY2019, supported by remittance inflows and tourist arrivals which in turn contributed to expansion of retail trade, transport, hotel and restaurant activity. Agriculture grew by 5 percent, due to good monsoons together with increased commercialization, the availability of fertilizers and seeds, and irrigation facilities. This helped raise paddy production, maize, and wheat to historic highs, almost doubling agriculture's contribution to GDP growth. In FY2019, agriculture accounted for 29 percent of overall GDP growth. Government revenue has performed well in FY2018 and FY2019 compared to previous years. However, the COVID-19 pandemic is expected to significantly reduce growth in FY2020. Activity in the tourism sector has been significantly impacted, causing a reduction in hotel occupancy rates and transport services that is estimated to exceed 50 percent. Also, expenditure levels are expected to increase significantly as government puts in place programs and measures to mitigate the impact of COVID on the economy and support recovery. This will add to existing spending pressures from ongoing implementation of federalism and federal transfers to provincial and local governments.

Inflation averaged 4.5 percent year on year (y/y) in FY2019, lower than the monetary policy target of 5.5 percent. The price of non-food items grew by 5.8 percent, driven mainly by housing and utilities, while food prices rose only 3 percent due to good agricultural production. In the last two months of FY2019 (i.e., June/July 2019), inflation spiked to 6 percent (y/y). This was driven by higher food prices due to increased

pesticide tests on vegetables and fruits imported from India which resulted in lower uptake of imported food and increased domestic prices. Over the first six months of FY2020, inflation averaged 6.4 percent (y/y), driven by higher vegetable prices and increased import duties on certain agricultural and industrial goods. This has widened the inflation gap with India and contributed to a 2.1 percent (real effective) appreciation of the Nepalese Rupee. As the effects of the COVID-19 pandemic unfold, in terms of domestic demand and supply shocks, this is expected to put more pressure on inflation.

Sectoral and Institutional Context

The last national-level Forest Resource Assessment (FRA) (2010–2014) concluded that forests and other wooded land cover about 6.61 million ha, an equivalent of 44.74 percent of the total area of the country. Out of the total forest area, 37.80 percent is located in the Middle Mountains region, 32.25 percent in the High Mountains and High Himalayas, 23.04 percent in the Churia, and 6.90 percent in the Terai. The total carbon stock in Nepal's forests has been estimated to be approximately 1,055 million tons. This includes the carbon pools in tree components such as forest soils, litter, and debris (FRTC 2015).

Results from the FRA demonstrate an increase in forest cover over the past decade. Although an aggregate increase in forest cover is reported at national level due to community forestry¹ interventions and agriculture abandonment for overseas migration (FRTC 2015), there are high levels of deforestation in certain parts of the country as well as forest degradation in existing forests. The intensity of degradation is higher in government-managed forests² than in community-managed forests. Evidence strongly suggests that once the forest management regime is transferred to local communities, forest degradation and deforestation can be substantially reduced. An analysis of deforestation and forest degradation in Nepal shows that the pressure on forests is highest in the Terai Region (Government of Nepal, 2010). Currently, nearly 80,000 ha of forest in the Terai are encroached by agriculture and new settlements.

Forests contribute directly and indirectly to Nepal's economy by providing forest ecosystem goods and services. The forest sector directly accounts on average for 3.5 percent (range 2.2 percent-5 percent) of the national Gross Domestic Product (GDP) (2000), and over 9 percent of total national employment (2011) (MSFP, 2016)³. In addition, the value of environmental services, which are presently not included in GDP calculations, is estimated at 17.3 percent, additional to the present GDP (MSFP, 2016). Forests currently supply roughly 86 percent of household energy needs. Forested watersheds also provide sediment retention and water regulation services that, in turn, improve the efficiency of hydropower facilities. In addition, more than 25,000 community forest user groups are directly engaged in managing forest areas, which provide important natural resources including food and fodder for their livelihoods. The total trade in non-timber-forest products from Nepal is estimated at US\$60–100 million (Heinen & Shrestha-Acharya, 2011)⁴. While most goods (e.g. harvested timber or firewood from forests) can be valued because they are traded on the market, services, such as habitat provisioning or sediment retention, or water and climate regulation services are currently not valued and hence underestimated in terms of their contribution to the economy.

Forests and agriculture remain inseparable due to the subsistence nature of farming systems in Nepal. More than 70 percent of the population depends on agriculture for sustaining their livelihoods. Forests play a

¹ Community Forest is national forest that the government transfers to a Community Forest User Group (CFUG) for conservation, management, and utilization of the forest resources in the collective interest of the group.

² Government Managed Forest is national forest land managed by the state. Ownership of all forest products of Government Managed Forest is vested in the government, although the government may grant a license for the use of such products.

³ Multi Stakeholder Forestry Project (MSFP), 2016. Sustainable Forest Management in Nepal. Katmandu, Nepal.

⁴ Heinen, J & Shrestha-Acharya, R., 2011. *The Non-Timber Forest Products Sector in Nepal: Emerging Policy Issues in Plant Conservation and Utilization for Sustainable Development*. Journal of Sustainable Forestry, 30:6, pp 543-563.

critical role in supporting agriculture: it is estimated that between 3.5 and 6 hectares of forestlands are required to support each hectare of crop land in Nepal by providing nutrient-rich animal fodder (MoFSC, 2009)⁵. Rural productions systems in Nepal are characterized by a strong dependency of agriculture and livestock on forest resources. Most rural people in Nepal depend on forests for their subsistence.

Nepal's forests have a large untapped potential for contributing to Nepal's economy. Nepal's Forest Sector Strategy 2012-2022 and Forest Sector Policy 2015 underscore the need for sustainable forest management to fully harness the production potential of forests, thereby creating employment, improving local livelihoods and contributing to alleviate rural poverty and foster socio-economic development. The 2016 Forest Sector Strategy has set some ambitious targets for the economic contribution of Nepal's forests: by 2025, the forest sector will (i) contribute at least 7.5 percent to the GDP, (ii) generate at least six times more jobs, (iii) reduce annual timber imports by 50 percent, and (iv) increase commercial timber supply to the domestic market annually by six times.

In 2018, the Government of Nepal endorsed the National REDD+ Strategy. The REDD+ Strategy⁶ envisions to optimize carbon and non-carbon benefits of forest ecosystems for the prosperity of the people of Nepal. It identifies 12 strategies and 79 strategic actions, covering a wide range of policy measures, management practices, governance and institutional strengthening, capacity enhancement, and policy and sectoral synergy development in order to achieve REDD+ outcome.

Nepal is committed to contributing to the implementation of the Paris Agreement under the United Nations Framework Convention on Climate Change (UNFCCC). Nepal's 2016 Nationally Determined Contribution (NDC) (MoPE, 2016) declares that Nepal aims to enhance its forest carbon stock by at least 5 percent by 2025 as compared to the 2015 level; and substantially decrease the mean annual deforestation rate in the Terai and Siwalik Hills. Nepal has pledged to maintain 40 percent of the total area of the country under forest cover, and to increase forest productivity through sustainable management. Equal emphasis will be given to increasing carbon sequestration and forest carbon storage and improving forest governance. Nepal also aims to put in place a forest carbon trade and payment mechanism and mainstream community/ecosystem-based adaptation by 2025.

C. Project Development Objective(s)

The Project Development Objective is to make payments to the Recipient for measured, reported and verified Emission Reductions related to reduced deforestation, and forest degradation and to the enhancement of forest carbon stocks in the Terai Arc Landscape, and to distribute the payments in accordance with an agreed-upon Benefit Sharing Plan.

Key Results

The achievement of the PDO will be measured through the following indicators:

- (i) Volume of CO₂ emissions reductions that have been measured and reported by the Program Entity, verified by a third party, and transferred to the FCPF Carbon Fund (tCO₂e);
- (ii) Payment by the FCPF Carbon Fund for CO₂ Emission Reductions generated by the Terai Arc Landscape Program (USD);
- (iii) Emission Reductions payments distributed in accordance with agreed-upon Benefit Sharing Plan.

⁵ Ministry of Forests and Soil Conservation (MoFSC), 2009. *Nepal Forestry Outlook Study*. Kathmandu, Nepal.

⁶Ministry of Forests and Environment (2018). *Nepal REDD+ Strategy*

D. Project Description

The instrument for this operation is Carbon Finance through an Emission Reductions Payment Agreement (ERPA). Specifically, the World Bank as the trustee and implementing agency of the FCPF Carbon Fund pays for GHG emission reductions (ERs) that meet a set of standard requirements defined in the Carbon Fund Methodological Framework (MF) and are independently verified during implementation. This operation will become effective after signing of an Emission Reductions Purchase Agreement (ERPA) between the Ministry of Finance on behalf of Nepal's National REDD Centre (NRC) in the Ministry of Forests and Environment (the Program Entity) and the World Bank as Trustee of the Forest Carbon Partnership Facility's (FCPF) Carbon Fund.

Because REDD+ is a performance-based payment mechanism for reduced emissions from deforestation and forest degradation, the operation does not involve the direct and upfront financing of any of the activities generating such ERs. The commercial terms, including unit price and volume of the emission reductions is finalized at ERPA negotiation stage. Hence the amounts listed in this document are indicative. It is estimated that this program will generate 9.00 million tons of CO₂ emission reduction, which would qualify for the payment of US\$45.00 million. Payments under the ERPA will be made upon the independent verification of the results (a combination of reduced emissions and increased carbon sequestration in the accounting area), and confirmation that safeguard instruments have been properly implemented as per the ER Program monitoring report.

This operation builds on Nepal's REDD+ readiness process, and with the World Bank's support, will lead to the REDD+ implementation phase with visible impacts, including emission reductions. The REDD+ Readiness project has supported the formulation of an enabling policy framework for REDD+ at the national level and a broad-based implementation plan at the sub-national level. The ER Program has the potential to mobilize significant finance to complement and leverage other World Bank operations, as well as other development partner finance. The ER Program is the leading sub-national effort for REDD+ in Nepal and will serve as a model to advance and replicate REDD+ priorities in other parts of the country. Carbon payments will provide incentives to for additional investments that reduce deforestation and forest degradation and promote sustainable forest management (SFM) as well as actions that strengthen the institutional and policy framework for forest and other land use planning and implementation.

The Program will address the drivers of deforestation and forest degradation, and barriers to effective forest governance in the Terai Arc Landscape (TAL). Through extensive consultation and prior assessments conducted during the REDD+ Readiness phase, six drivers of deforestation and forest degradation were identified: a) unsustainable and illegal harvesting of timber and fuelwood, b) overgrazing, c) forest fires, d) encroachment, e) resettlement, and f) infrastructure development. Through the same approach, five major barriers to effectively addressing the key drivers of deforestation and forest degradation were recognized: 1) limited financial resources and technologies to successfully implement programs; 2) limited information and awareness on best management practices; 3) governance and challenges associated with the transition to federalism; 4) insufficient alternative livelihood and poverty alleviation opportunities; and 5) conflicting views on sustainable management of forests.

The drivers and barriers will be addressed by implementing seven ER Program interventions. The interventions were identified through district, regional and national consultations. These interventions is presented below.

- a. Improve the management practices on existing community forests building on traditional and customary practices:
- b. Localize forest governance through transfer of National Forests to Community and Collaborative Forest User Groups:

- c. Expand private sector forestry through improved access to extension services and finance:
- d. Expand access to alternative energy with biogas and improved cookstoves:
- e. Scale up pro-poor Leasehold Forestry:
- f. Improve integrated land use planning to reduce forest conversion associated with advancing infrastructure development:
- g. Strengthen management of Protected Areas

The TAL Emission Reduction Program has two components: a) measurement, reporting and verification (MRV) and payment of ERs generated by the project; and b) distribution of the ER payments as per agreed BSP. Further detail on the institutional arrangements is provided in Annex 6 of the PAD.

Component 1. Measurement, reporting and verification (MRV) and payment of ERs generated by the program. NRC and FRTC will measure emission reductions generated from implementation of ER Program activities twice during the program period. NRC will then report monitoring results to the FCPF Carbon Fund. The verification will take place every two years by a third party contracted by the FCPF FMT following the submission of a monitoring report by the government.

Component 2. Distribution of ER payments as per BSP. Once the payment is received from FCPF Carbon Fund, the NRC will be responsible for distributing the payments according to the BSP. An advanced draft BSP, cleared by the FCPF Carbon Fund Participants, will be publicly shared prior to ERPA signature.

E. Project location and salient physical characteristics relevant to the safeguard analysis

The ER Program Area includes contiguous land area of the TAL, covering 2,172,800 ha in five Provinces and thirteen districts. These districts include—from East to West—Province No. 2 (Rautahat, Bara, and Parsa); Bagmati Province (Chitwan); Gandaki Province (Nawalpur); Province No. 5 (Parasi, Rupandehi, Kapilbastu, Dang, Banke, and Bardiya); and Province No. 7 (Kailali and Kanchanpur). Uniquely rich in culture and natural resources, the TAL represents approximately 15% of Nepal's total land area, a fifth of Nepal's forest area, and a quarter of Nepal's total population. It is also the country's most productive agricultural region. The altitude in the area varies from less than 100 meters up to 2,200 meters above sea level. About 52.4 percent (1.2 million ha) of the total land area covered by the ER program is forest land, which include legally defined forest areas and other wooded land including shrub land. The forest areas in the TAL fall within protected areas, community managed forests, collaborative managed forests, and government managed forests where Sal (Shore Robusta) is the dominant species. As it happens, the TAL is the region with the highest historical rates of deforestation in the country.

The TAL is influenced by both tropical and subtropical climates. The TAL is globally significant for its biodiversity, including iconic species such as tigers, rhinos, and elephants. It provides vital ecosystem services across the landscape including aquifer protection, flood management, and carbon sequestration. Forests play a central role in people's lives in the TAL, and forest management drives economic development in the region. Forests are critical for food, fuel, timber, fodder, medicinal plants, and generating ecotourism revenues. Flash flooding is also common in the TAL.

The TAL area is home to 7.35 million people from a number of ethnic and indigenous groups; details on the socio-cultural composition of the area can be found in the ERPD. The TAL faces in-migration from the north hills and out-migration of working age males to urban centers in Nepal and India. The overall area is densely populated and its residents' welfare is of critical importance to the present and future sustainability of its human and animal life. These residents are among the world's poorest (50% live below the poverty line), and they generally subsist on the land. The last few years have seen rapid growth of the population in the ER Program Area, and this has placed growing and heavy pressure on the forest resources of the region. Most of the people

in the area are engaged in agricultural practices for their livelihood. Livestock is also an integral part of the economic practice in the area. Mostly livestock are grazed in forests, especially in government managed forests (in some Community and Collaborative forests grazing is not allowed). More than 75% of the households use firewood as a source of energy, and 61% of households rely on wood as their main fuel for cooking. Most people get their fodder from forests.

F. Environmental and Social Safeguards Specialists on the Team

Annu Raj Bhandari (Environmental Safeguards)

Kennan Rapp (Social Safeguards)

II. Implementation Arrangements

The Ministry of Finance signs the ERPA with the World Bank and receives payments from the FCPF Carbon Fund. The Ministry of Forests and Environment (MoFE) is responsible for the overall management and coordination of the ER Program implementation and distribution of the ER payments. The National REDD+ Centre (NRC), which is based in the Ministry, will coordinate the ER Program management on behalf of MoFE. However, ER program activities will be executed by various government institutions including the DoF, the Department of National Parks and Wildlife Conservation (DNPWC) and CBFM groups. MRV and the emission reductions database will be managed by the Forest Research and Training Centre (FRTC).

While appropriate institutional arrangements for safeguards management are in place at the national, provincial and district levels, more yet will need to be established, in tandem with the developing federalization process. At the national level, the REDD+ process is operationalized through a three-tier structure comprising the National REDD+ Steering Committee (NRSC), National REDD+ Coordination Committee (for coordination and decision-making), and the NRC as the REDD+ program management entity. This formal structure is supplemented by two informal mechanisms, the REDD+ Multi-Stakeholder Forum and REDD+ CSO and IPO Alliance. The roles of these committees and bodies and their inter-relationships are described further in Annex 5 of the PAD.

At the provincial level, a REDD Desk has been established in the Ministry of Industry, Tourism, Forests and Environment to coordinate the ER Program implementation in each province. A REDD+ Focal Officer (RFO) will lead the REDD Desk. The RFO will:

- ensure coordination among districts/divisions on ER Program implementation;
- provide advice and guidance to districts/divisions and to REDD+ Program Management Units;
- liaise with NRC and REDD+ Focal Officer at the federal level as needed for technical guidance and advice;
- monitor ER Program implementation at district/division level; and
- report to the NRC and DoF/DNPWC on ER Program implementation in the province.

At the district level, a District/Division REDD+ Program Management Unit (DRPMU) will be established in each District/Division forest office. The DRPMU will coordinate and provide secretariat services related to ER Program activities in each district/division. To support DRPMU, parallel committees as at national level will be formed. These include District/Division REDD+ Coordination Committee (DRCC), District/Division REDD+ Multi-Stakeholder Forum, and District/Division REDD+ CSOs and IPO Alliance. Please see PAD Annex 5 for further details.

III. Safeguard Policies that apply

Safeguard Policies	Triggered?	Explanation
Environmental Assessment OP/BP 4.01	Yes	<p>The EA policy, OP/BP 4.01, is triggered. The Program is classified as Category “B” as the activities are expected to bring sustainable forest management through various interventions and investments to afforest and rehabilitate degraded forests and in a way that will have few or no adverse environmental impacts. Some of the potential adverse environmental impacts of the seven interventions include changes in species composition; loss of biodiversity in harvesting sites; water pollution; risk of monoculture; loss of species of cultural value (but not necessarily economic value); loss of resilience to pest and pathogens; risk of encroachment in harvesting sites; flooding; loss of underground water level; forest fire; and risks to unique habitats.</p> <p>Potential social risks include deterioration of valuable cultural and traditional practices related to access to and use of resources; frustration among stakeholders in case the Program’s performance expectations are not met; safety hazards associated with harvesting operations; conflicts between communities and ER Program authorities over rights of indigenous peoples, women, and marginalized communities; property loss; loss of burial grounds and historic sites; rise in elite capture; exclusion and/or marginalization; corruption; and human-wildlife conflicts.</p> <p>In order to identify these impacts and put appropriate management arrangements in place, Environmental and Social Assessment (ESA) was conducted in the Program Area and an Environmental and Social Management Framework (ESMF) was prepared to address the potential risks and impacts associated with ER Program in accordance with the laws and regulations of the Government of Nepal, the applicable WBG safeguard policies and the UNFCCC Cancun Safeguards for REDD+. The ESMF details procedures as well as appropriate institutional arrangements for preparing, screening, reviewing, implementing and monitoring specific Environmental and Social Management Plans (ESMPs) to prevent, mitigate, and compensate adverse and cumulative impacts. The ESMF was extensively consulted upon and has been disclosed both in-country and via the World Bank’s website.</p>
Natural Habitats OP/BP 4.04	Yes	<p>This policy has been triggered as districts like Banke, Bardia, and Chitwan consist of protected areas which may be affected during the implementation of the ER Program, although the activities are not expected to involve the significant conversion or degradation of natural habitats. Potential impacts have been analyzed as part of the regional ESA, and proposed mitigation measures have been included in the ESMF.</p>
Forests OP/BP 4.36	Yes	<p>This policy is triggered as Program activities will be carried out in and around forested areas, though they are not expected to involve the conversion or degradation of critical forest areas. Activities like promoting sustainable management of forests, private forestry, alternative energy and biogas, etc. may result in negative impacts like overgrazing due to increased livestock grazing, excessive felling, spread of forest fires,</p>

		encroachment of forest habitats, and so forth. Potential impacts have been analyzed as part of the regional ESA and proposed mitigation measures have been included in the ESMF. These issues will also be addressed while preparing forest management plans, as needed under interventions 1 and 2.
Pest Management OP 4.09	Yes	Pesticide use may increase in association with investments in agroforestry activities, support to intensification of agriculture, and changes in land use, which may in turn require pest management measures. The ESMF includes attention to pest management approaches, thus providing overall guidance on how to address OP/BP 4.09.
Physical Cultural Resources OP/BP 4.11	Yes	The implementation of ER activities may adversely affect burial grounds and sites of historic, religious cultural, and archaeological importance. Provisions for screening of these sites and the application of “chance find” procedures, where necessary, are included in the ESMF.
Indigenous Peoples OP/BP 4.10	Yes	This policy is triggered. The Terai Arc Landscape is extremely diverse, with indigenous peoples constituting 31% of its total population. At the same time, the seven major interventions of the ER Program have been designed to have a special focus not just on IPs, but also on Dalits, Muslims, women, and other vulnerable groups residing in the ER Program Area. The dimensions of this vulnerability have been analyzed as part of the regional ESA, and the resulting ESMF includes an IPs and Vulnerable Communities Development Framework (IPVCDF). Based on this Framework, site-specific IPs & Vulnerable Community Plans will be prepared and implemented during the implementation of the ER Program. These plans will establish the procedures and mechanisms that the concerned DFOs for the ER Program must adopt in order to prevent or mitigate possible adverse effects resulting from the proposed ER Program interventions and activities on IPs. They will also promote full and effective participation of indigenous peoples through meaningful consultations with specific communities in specific locations, following the principles of Free, Prior and Informed Consent (FPIC). This is consistent with the status of Nepal as a signatory to ILO 169 and as an endorser of the U.N. Declaration on the Rights of Indigenous Peoples (UNDRIP).
Involuntary Resettlement OP/BP 4.12	Yes	As a precautionary measure, the ESMF prepared for the ER-P includes a Resettlement Policy Framework (RPF) in order to address the various types of land acquisition and resettlement that may occur as a result of the implementation of ER Program activities. The RPF outlines the principles and objectives, eligibility criteria of displaced persons, modes of compensation and rehabilitation, participation features and grievance redress procedures that will guide the compensation and potential resettlement of affected persons. It also describes the planning and documentation requirements for such activities under the Program. By the same token, in order to address impacts related to the (more likely) restriction of community access to natural resources as a result of the implementation of ER Program activities, the ESMF includes a Process Framework (PF). The PF provides rules and guidelines for assessing and addressing restrictions in access to natural resources, and outlines the remedies to be agreed with the affected communities and implemented in response to these restrictions.

Safety of Dams OP/BP 4.37	No	The ER Program and the activities and investments associated with it are not expected to involve the construction or rehabilitation of dams, so this policy is not triggered.
Projects on International Waterways OP/BP 7.50	No	The ER Program and the activities and investments associated with it will not be taking place on an international waterway, so this policy is not triggered.
Projects in Disputed Areas OP/BP 7.60	No	The ER Program and the activities and investments associated with it will not be located in disputed areas, so this policy is not triggered.

IV. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

Environment:

The ER Program is classified as Category “B” as the proposed seven interventions will focus mainly on small- and medium-size operations. Most of the impacts from subproject/activities are site specific and can be mitigated, if not avoided. An Environmental and Social Management Framework (ESMF) has been developed according to the Environmental Assessment Policy (OP/BP 4.01) to guide the implementing agency to undertake appropriate environmental and social management actions for the Program. According to the SEA, given the nature, scale and scope of the proposed investments, the potential adverse environmental and social impacts are expected to be moderate, reversible and temporary. Some of the potential adverse impacts of the seven interventions include changes in species composition; loss of biodiversity in harvesting sites; water pollution; risk of monoculture; loss of species of cultural value (but not necessarily economic value); loss of resilience to pest and pathogens; risk of encroachment in harvesting sites; flooding; loss of underground water level; forest fire; and risks to unique habitats.

Similarly, one of the major positive environmental impacts derives from the sustainable forest management of forests (SFM). All the interventions are expected to contribute to SFM. Other positive environmental impacts include enhanced carbon sequestration; maintained ecosystem services; reduced deforestation and forest degradation; biodiversity conservation; promotion of natural regeneration; landscape restoration; protection of vulnerable species (flora and fauna); and maintained ecological integrity of the Program Area.

Social:

Potential positive social impacts identified include capacity building for local stakeholders’ income generation; greater local control over forest resources (with concomitant improvements in natural resources governance); greater equity in benefit sharing; more inclusive decision making; and improved local economy because of the institution of forest-based enterprises, ecotourism, and integrated planning. Positive health impacts will also be experienced because of smoke-free kitchens in the households using biogas and improved cookstoves. Women may not need to spend hours collecting firewood once they start using biogas for cooking. Most importantly, money generated from reduced emissions from sources and enhanced removals by sinks will provide a significant boost to community development, especially for forest-dependent peoples.

Potential social risks include risks to cultural and traditional practices related to access to and use of resources; frustration among stakeholders in case of a failure to meet Program performance expectations; safety hazards associated with harvesting operations; conflicts between communities and ER Program authorities over rights of indigenous peoples, women, and marginalized communities; property loss; risks to burial grounds and historic sites; risks of elite capture; risks of exclusion and/or marginalization; corruption; and human-wildlife conflicts.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

No long-term adverse impacts were identified during the carrying out of the ESA and the development of the safeguards instruments.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

No major adverse impacts are expected from the proposed project. Further, the project will ensure that any activity that would lead to an adverse impact would be mitigated as stipulated in the Environment and Social Management Framework.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

Environmental and Social Assessment (ESA) was conducted and an Environmental and Social Management Framework (ESMF) prepared to address the potential risks and impacts associated with the ER Program, in line with the applicable requirements of the Government of Nepal, the WBG safeguard policies and the UNFCCC Cancun Agreements. The ESMF details procedures as well as appropriate institutional arrangements for preparing, screening, reviewing, implementing and monitoring specific Environmental and Social Management Plans (ESMPs) to prevent, mitigate, and compensate adverse and cumulative impacts.

The ESMF has been extensively consulted upon and was disclosed both in-country and via the World Bank's website. The ESMF, a main output from the ESA, includes a Resettlement Policy Framework (RPF) and a Process Framework (PF) which have been developed to address potential involuntary resettlement issues that may occur during the program. Similarly, a Benefit Sharing Plan (BSP) satisfactory to the World Bank and the Carbon Fund Participants (CFPs) of the FCPF has been prepared to ensure that local-level beneficiaries, including vulnerable or otherwise disadvantaged groups, will also be eligible to receive payment from the sale of ERs, as per the arrangement described in the BSP. The ESMF incorporates a Gender Action Plan to promote women's participation in the Program, share in the benefits, and maximize gender equality.

A Feedback and Grievance Redress Mechanism (FGRM) for the ER Program Area is in place to address potential conflicts relating to land/ boundary disputes or any other issues relating to the implementation of the ER activities. The FGRM has been developed consistent with Nepali laws and includes a framework within which complaints about safeguards compliance can be handled, grievances can be addressed, and disputes can be settled quickly and transparently.

Implementation Capacity:

As mentioned earlier, MoFE is responsible for the overall management and coordination of the ER Program implementation and distribution of the ER payments. For its part, the National REDD+ Centre (NRC) will coordinate the ER Program management on behalf of MoFE. However, ER Program activities will be executed by various government institutions operating at multiple levels. To a large extent the ER-P's success will depend on how well the federalizing system for forest management actions is supported and operationalized on the ground. To date, the environmental and social capacity of MoFE is weak and so is the capacity of the sub-

national government units charged with environmental and social issues management. The Environment Sector Diagnostic for Nepal that was recently launched by the World Bank pointed to the critical need for capacity strengthening in the area of environmental management, especially in the context of devolution of powers introduced through the 2015 Constitution. An initial assessment of the capacity of MoFE, the NRC and other existing implementing entities for safeguards management was undertaken as part of the ESA, and appropriate measures aimed at building capacity at the federal and sub-national levels have been incorporated into the ESMF for the Program.

World Bank Oversight:

During the implementation period of an ER-P, the World Bank has the responsibility for monitoring and ensuring effective implementation and compliance of the Program Entity with agreed management measures. The Bank's primary responsibility for oversight would be to assess whether the environmental and social management systems established by the Program Entity address and respect all aspects of the safeguard instruments that apply to the ER-P. World Bank's review, approval, and oversight of specific program activities are provided below:

- For the Bank-financed projects contributing to the ER Program, the Bank will retain full responsibility for safeguards compliance and oversight as it would for any other Bank financed activity;
- For the ER Program activities financed by others, MoFE, as the Program Entity, together with financiers, would be responsible for ensuring that requirements of applicable safeguards frameworks and plans are addressed and respected. The World Bank would not be responsible for any prior review, clearance, or supervision of such activities. The World Bank's role would be to undertake periodic assessments to determine whether the agreed safeguards systems are being implemented in accordance with agreements and that these systems are effective in addressing safeguards risks and impacts. This includes confirming aspects such as, adequacy of budgets and staffing to support the implementation of the safeguards plans; that the PE can demonstrate credibly that environmental and social assessments and management plans are prepared in accordance with the safeguard frameworks; mechanisms for self-reporting and third party monitoring are in place and functional; grievance redress and dispute resolution mechanisms are established and functional; the implementing entities have demonstrated ability to solve issues of non-compliance, and so on. The Bank will establish a clear timetable for supervision and implementation support missions. In the early years of an ER Program, oversight would typically need to be robust and conducted regularly to verify that systems are functioning as agreed.
- For activities in the ERPA accounting area which may in some way contribute to emissions reductions but are not part of the ER Program, the World Bank would bear no responsibility for review or oversight either at the transaction or program level.

Safeguards Audit:

In line with a recent decision by the Carbon Fund Participants and with the current approach of a number of other FCPF member countries that are developing ER-Ps, Nepal has proposed that the ER accounting period for the TAL ER-P should start from the date its ERPD was selected into the portfolio by the CFPs, in June 2018. For the FCPF and the World Bank to accept this proposal, the GoN has to demonstrate that the ER Program measures that have been implemented since the ERPD selection date are in compliance with the applicable World Bank safeguard policies. Consequently, the GoN and the Bank have agreed that an ex-post safeguards audit focusing on those same measures shall be conducted to this end. The NRC has already hired the consultants needed for this task, in keeping with a ToR for the audit that has been reviewed and approved by the Bank. But the consultants have not been able to follow through with the field work and consultations needed for the audit due to the strict lockdown in the country in response to the COVID-19 pandemic.

Considering the current difficulty in completing the ex-post safeguards audit related to retroactive ERs, after consulting the relevant authorities in both the GoN and the Bank it has been determined that, assuming a

successful appraisal of the TAL ER-P by the Bank, negotiations of an ERPA can proceed in tandem with the carrying out of the safeguards audit. However, not until the results of the audit are available and the FCPF and the Bank have confirmed that they are sufficiently positive, would the Bank be able to proceed with ERPA signature. In other words, actual signature of the ERPA with the retroactive financing is dependent on the audit being acceptable to the Bank, both in terms of its quality and in terms of the positiveness of its findings. The Bank team will continue to engage in a dialogue with NRC and MoFE officials, as appropriate, to ensure that what would be considered “sufficiently positive” audit findings is clear and fully agreed in advance.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Public Consultation and Information Disclosure:

During preparation of the program document, ESA, ESMF, RPF, EMPF, PF, relevant stakeholders (MoFE staff, community forest user’s group, District officers, agriculture, forestry, environment, ethnic minority staff at district and commune levels, forestry associations like FECOFUN, heads of villages and local people of different ethnic groups, NGOs, have been consulted. The ESMF and its incorporated frameworks were prepared based on the results of the consultations for the ERPD development process and the ESA process which included extensive qualitative and quantitative consultations. These consultations commenced in October 2017 and ended in August 2019.

Draft version of environmental and social safeguards ESA and ESMF have been disclosed via the World Bank and MoFE websites in late October 2019. Any additional environmental and social safeguards documents (such as the Final Report for the safeguards audit) will be disclosed via these same websites once they are available. The Appraisal Stage Integrated Safeguards Data Sheet for the project will also be disclosed at the Bank’s Operation Portal.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other	
Date of receipt by the Bank	October 14, 2019
Date of submission to InfoShop	October 22, 2019
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	N/A
"In country" Disclosure	October 24, 2019
Resettlement Action Plan/Framework/Policy Process	
Date of receipt by the Bank	October 14, 2019
Date of submission to InfoShop	October 22, 2019
"In country" Disclosure:	October 24, 2019
Indigenous Peoples Development Plan/Framework	
Date of receipt by the Bank	October 14, 2019
Date of submission to InfoShop	October 22, 2019
"In country" Disclosure:	October 24, 2019
If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective	

issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.
If in-country disclosure of any of the above documents is not expected, please explain why:

C. Compliance Monitoring Indicators at the Corporate Level

OP/BP/GP 4.01 - Environment Assessment			
Does the project require a stand-alone EA (including EMP) report?	Yes	<input checked="" type="checkbox"/>	No <input type="checkbox"/> NA <input type="checkbox"/>
OP/BP 4.04 - Natural Habitats			
Would the project result in any significant conversion or degradation of critical natural habitats?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/> NA <input type="checkbox"/>
If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?	Yes	<input type="checkbox"/>	No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
OP/BP 4.11 - Physical Cultural Resources			
Does the EA include adequate measures related to cultural property?	Yes	<input checked="" type="checkbox"/>	No <input type="checkbox"/> NA <input type="checkbox"/>
Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?	Yes	<input checked="" type="checkbox"/>	No <input type="checkbox"/> NA <input type="checkbox"/>
OP/BP 4.12 - Involuntary Resettlement			
Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?	Yes	<input checked="" type="checkbox"/>	No <input type="checkbox"/> NA <input type="checkbox"/>
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?	Yes	<input checked="" type="checkbox"/>	No <input type="checkbox"/> NA <input type="checkbox"/>
Is physical displacement/relocation expected?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/> NA <input type="checkbox"/>
Is economic displacement expected? (loss of assets or access to assets that leads to loss of income sources or other means of livelihoods)	Yes	<input checked="" type="checkbox"/>	No <input type="checkbox"/> NA <input type="checkbox"/>
OP 7.50 - Projects on International Waterways			
Have the other riparians been notified of the project?	Yes	<input type="checkbox"/>	No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
If the project falls under one of the exceptions to the notification requirement, has this been cleared with the Legal Department, and the memo to the RVP prepared and sent?	Yes	<input type="checkbox"/>	No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
Has the RVP approved such an exception?	Yes	<input type="checkbox"/>	No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
The World Bank Policy on Disclosure of Information			
Have relevant safeguard policies documents been sent to the World Bank's InfoShop?	Yes	<input checked="" type="checkbox"/>	No <input type="checkbox"/> NA <input type="checkbox"/>
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes	<input checked="" type="checkbox"/>	No <input type="checkbox"/> NA <input type="checkbox"/>
All Safeguard Policies			

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>
Have costs related to safeguard policy measures been included in the project cost?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>

III. APPROVALS

Task Team Leader(s):	Name: Andrea Kutter/Rajesh Koirala	
<i>Approved By:</i>		
Safeguards Advisor:	N/A	Date: N/A
Practice Manager/Manager:	Christophe Crepin	Date: June 24, 2020
Country Director	Faris H. Hadad-Zervos	Date: July 10, 2020