

# Forest Investment Program

## Investment Plan for Nepal

### Investing in Forests for Prosperity at a Time of Transformation



Government of Nepal  
Ministry of Forests and Soil Conservation  
Singh Durbar, Kathmandu

November 2017



## **Contents**

Abbreviations .....	ii
List of Tables .....	iv
List of Figures .....	v
Executive Summary .....	1
Section 1 Description of the Country and Sector Context .....	7
Section 2 Identification of Opportunities for Greenhouse Gas Abatement .....	15
Section 3 Enabling Policy and Regulatory Environment .....	20
Section 4 Identification and Rationale for Projects and Programs to be Co-financed by FIP .....	25
Section 5 Collaboration with Development Partners .....	45
Section 6 Expected Co-Benefits from FIP Investment .....	48
Section 7 Implementation Potential with Risk Assessment .....	51
Section 8 Financing Plan and Instruments .....	55
Section 9 Results Framework for Investment Plan .....	59
Annex 1: The Proposed Program and Project .....	66
Annex 2: Stakeholder involvement plan .....	91
Annex 3: Dedicated Grant Mechanism for Indigenous Peoples: Funding and Implementation Plan .....	99
Annex 4: Summary of Nepal's draft REDD+ Strategy .....	105
Annex 5: Comments by expert reviewers on Nepal's FIP-IP and response to the comments from REDD IC, Govt of Nepal .....	110
Annex 6: FIP steering committee members .....	141
Annex 7: Experts of the consulting team involved in designig the investment plan .....	142

## Abbreviations

ACOFUN	Association of Collaborative Forest User Groups of N
BISEP-ST	Biodiversity Support Programme for Shiwaliks and Terai
BZ-FUG	Buffer Zone Forest User Group
CBD	Convention on Biodiversity
CBFM	Community based forest management
CBO	Community Based Organisation
CBS	Central Bureau of Statistics
CC	Climate Change
CF	Community forest
CFM	Collaborative forest management
CFUG	Community forest user group
CIAA	Commission for Investigation of Abuse of Authority
CIF	Climate Investment Fund
CSO	Civil society organisation
DANAR	Dalit Association for Natural Resources
DFID	Department for International Development (UK)
DFO	District Forest Officer/Office
DFRS	Department of Forest Research and Survey
DGM	Dedicated Grant Mechanism
DNPWC	Department of National Parks and Wildlife Conservation
DoF	Department of Forest
EIA	Environmental impact assessment
ENLIFT	Enhancing livelihoods and food security from agroforestry and community forestry in Nepal
ERPD	Emissions reduction program document
ESMF	Environmental and Social Management Framework
FAO	Food and Agriculture Organisation of the United Nations
FCPF	Forest carbon partnership facility
FCTF	Forest Carbon Trust Fund
FECOFUN	Federation of Community Forest User Groups of Nepal
FIP-IP	Forest investment program - investment plan
FPIC	Free, prior and informed consent
FUG	Forest Users Group
GCF	Green Climate Fund
GDP	Gross domestic product
GESI	Gender, Equity and Social Inclusion
GIZ	German Development Agency
GoN	Government of Nepal
HDI	Human development index
HIMAWANTI-Nepal	Himalayan grassroots women's natural resource management association of Nepal
IFC	International Finance Corporation
IP	Indigenous People
IPO	Indigenous Peoples' Organisation
IUCN	International Union for Conservation of Nature
LAPA	Local Adaptation Plan of Action
LFP	Livelihoods and Forestry Programme
LHF	Leasehold forest management
MDB	Multi-lateral Development Bank
MoF	Ministry of Finance

MoFSC	Ministry of Forests and Soil Conservation
MoPE	Ministry of Population and Environment
MoSTE	Ministry of Science and Technology
MRV	Measurement, Reporting and Verification
MSFP	Multi-Stakeholder Forestry Programme
NDC	Nationally Determined Contribution
NEFIN	Nepal Federation of Indigenous Nationalities
NFA	Nepal Foresters Association
NGO	Non-governmental organisation
NPC	National Planning Commission
NSCFP	Nepal Swiss Community Forestry Project
NTFP	Non-timber forest product
NTNC	Nepal Trust For Nature Conservation
NVC	National Vigilance Centre
PAM	Policies and Measures
PES	Payment for ecosystem services
REDD	Reducing emissions from deforestation and forest degradation
REDD IC	REDD implementation centre
SDC	Swiss Development Cooperation
SDG	Sustainable Development Goal
SESA	Strategic Environmental and Social Assessment
SFM	Sustainable forest management
TAL	Terai Arc Landscape
TTL	Task Team Leader
UNFCCC	United Nations Framework Convention on Climate Change
UN-REDD	United Nations programme on REDD
USD	US dollar
W+ standard	Standard developed by WOCAN for projects that create increased social and economic benefits for women
WB	World Bank
WWF	World Wide Fund for Nature

## List of Tables

<i>Table 1: Direct drivers, priorities, affected regions and their underlying causes .....</i>	<i>11</i>
<i>Table 2: Nepal draft REDD+ Strategy (2016): 12 Key Strategies for Emissions Reduction..</i>	<i>14</i>
<i>Table 3: Draft REDD+ Strategy (2016): List of proposed actions .....</i>	<i>16</i>
<i>Table 4: Newly created opportunities for Nepal's forestry sector stakeholders .....</i>	<i>20</i>
<i>Table 5: Objectives and priority programmes of Nepal's 14th Periodic Plan .....</i>	<i>22</i>
<i>Table 6: Summary of five proposed investments.....</i>	<i>25</i>
<i>Table 7: FIP Investment Program: Transformative Outcomes .....</i>	<i>28</i>
<i>Table 8: Main transformative effects of five proposed investment projects .....</i>	<i>29</i>
<i>Table 9: Linkages between Nepal's Forest Policy 2015 and 5 proposed FIP investments.....</i>	<i>32</i>
<i>Table 10: Potential FIP-IP collaborators .....</i>	<i>46</i>
<i>Table 11: FIP-IP investments derived from earlier successful pilots.....</i>	<i>46</i>
<i>Table 12: FIP-IP Co-benefits and outcomes .....</i>	<i>49</i>
<i>Table 13: Implementation risks and mitigation measures for FIP-IP.....</i>	<i>52</i>
<i>Table 14: FIP-IP Estimated costs (USD) .....</i>	<i>57</i>
<i>Table 15: FIP-IP Finance Plan (USD).....</i>	<i>57</i>
<i>Table 16: Logic Model for FIP-IP .....</i>	<i>60</i>
<i>Table 17: Country level results framework for FIP-IP .....</i>	<i>61</i>
<i>Table 18: Summary of proposed investment projects .....</i>	<i>67</i>
<i>Table 19: FIP Investment Projects - Indicative project preparation timetable.....</i>	<i>89</i>
<i>Table 20: Consultation participants by gender and ethnicity .....</i>	<i>92</i>
<i>Table 21: Consultation participants by occupation/stakeholder category.....</i>	<i>92</i>
<i>Table 22: Key Stakeholders and rightholders for the five proposed investment projects .....</i>	<i>97</i>
<i>Table 23: Indicative activities under DGM .....</i>	<i>103</i>
<i>Table 24: Draft REDD+ Strategy (2016): Summary of Strategies and Actions .....</i>	<i>106</i>

## **List of Figures**

Figure 1: Nepal's new administrative structure and ecological regions.....	8
Figure 2: Nepal's Forest Cover .....	9
Figure 3: Locations of Proposed Projects .....	26
Figure 4: Estimated CO <sub>2</sub> emission reductions/capture (tonnes CO <sub>2</sub> e) by proposed investment projects over 8 years .....	27
Figure 5: Estimated employment days generated by proposed investment projects over 8 years .....	27
Figure 6: Households directly benefiting from investment projects over 8 years .....	27
Figure 7: Nepal's FIP-IP Contributes Directly to 9 out of 17 SDGs.....	31
Figure 8: FIP-IP Indicative Implementation Structure .....	34
Figure 9: Areas proposed for Project 1 .....	35
Figure 10: Areas proposed for Project 2 .....	38
Figure 11: Proposed areas for Project 3 .....	39
Figure 12: Potential locations for Project 4 .....	41
Figure 13: Proposed location for Project 5 .....	43
Figure 14: FIP-IP Consultation locations .....	92
Figure 15: Relationship between FIP and DGM.....	100

## Executive Summary

<b>FOREST INVESTMENT PROGRAM</b>		
<b>Summary of Nepal Investment Plan</b>		
<b>1. Country/region</b>	Nepal	
<b>2. FIP funding request (in USD million)</b>	<i>Grant:</i> 6.1 million	<i>Loan:</i> 17.9 million
<b>3. National FIP Focal Point</b>	Dr Sindhu Prasad Dhungana Joint Secretary and Chief, REDD IC, Kathmandu, Nepal <a href="mailto:sindhungana@gmail.com">sindhungana@gmail.com</a>	
<b>4. National Implementing Agency (coordination of Investment Plan)</b>	Ministry of Forests and Soil Conservation, Kathmandu, Nepal Email: <a href="mailto:info@mfsc.gov.np">info@mfsc.gov.np</a> ; <a href="mailto:webmaster@mfsc.gov.np">webmaster@mfsc.gov.np</a> Website: <a href="http://mfsc.gov.np/">http://mfsc.gov.np/</a>	
<b>5. Involved MDBs</b>	World Bank	
<b>6. MDB FIP focal point and Project/Program Task Team Leader (TTL)</b>	Headquarters-FIP Focal Point Andrea Kutter <a href="mailto:akutter@worldbank.org">akutter@worldbank.org</a>	<i>TTL:</i> Andrea Kutter <a href="mailto:akutter@worldbank.org">akutter@worldbank.org</a> Drona Ghimire <a href="mailto:dghimire@worldbank.org">dghimire@worldbank.org</a>
<p><b>(a) Description of Investment Plan:</b>  <b>Goal:</b> <i>Strengthened resilience of forest ecosystems for emissions reductions and increased environmental, social and economic benefit</i></p> <p><b>(b) Key challenges related to REDD+ implementation</b>                      The main drivers of deforestation and forest degradation in Nepal are identified as: (i) Unsustainable harvesting and illegal harvesting; (ii) Forest fire; (iii) Infrastructure development (including man-made disasters); (iv) Overgrazing/uncontrolled grazing; (v) Weak forest management practices (unmanaged/undermanaged); (vi) Urbanisation and resettlement; (vii) Encroachment; (viii) Mining/excavation (sand, boulders, gravel); and (ix) Expansion of invasive species. To address these means tackling their underlying causes which are identified in Nepal's draft REDD+ strategy as being:</p> <ol style="list-style-type: none"> <li>i. Disproportionate population distribution and migration pattern</li> <li>ii. Policy gaps and poor implementation as well as policy contradictions among different sector or jurisdictions</li> <li>iii. Poverty and limited livelihoods opportunities</li> <li>iv. High dependency on forest products and gaps in demand-supply</li> <li>v. Lack of land-use policy and insecure forest tenure</li> <li>vi. Poor governance and weak political support</li> <li>vii. Weak coordination and cooperation among stakeholders</li> <li>viii. Inadequate human resource development and management</li> <li>ix. Low priority to research and development</li> <li>x. Poor coping strategy for natural disaster and climate change</li> </ol> <p>Underlying the challenges of addressing both the direct and the underlying causes of REDD + implementation is the current national transformation that is taking place as the country moves towards a federal republic under the provisions of the new constitution. This is likely to result in significant capacity gaps for REDD+ implementation – especially at local levels where new governance structures are still being put in place.</p> <p>Nepal's forestry sector is characterised by the diversity of stakeholders ranging from communities and rural households to government at municipality, state and federal levels, CSOs and NGOs and the complex socio-economic context. The private sector is potentially an important player in Nepal's forestry sector – but previous attempts to enhance investment by the private sector have not been</p>		



successful due to constraining regulations which act as a disincentive to investment in forestry.

The current policy and enabling environment is largely already appropriate for implementation of REDD+ although some regulatory changes will be needed to strengthen and encourage private investment in sustainable timber harvesting and timber-based enterprise development concerning the harvesting, sale, transport and utilisation of timber. Another important challenge is the lack of effective land-use planning systems (at all levels) which hinder the decision-making processes and fail to address cross-sectoral conflicts regarding forest land use and allocation e.g. for infrastructure.

**(c) Areas of intervention – sectors and themes**

Nepal's FIP-IP includes 5 linked projects aimed at achieving the overall goal after 8 years, managed under a common program framework.

**Project 1 will strengthen sustainable forest management through Community Based Forest Management in Terai and Chure Regions** where Nepal's CO<sub>2</sub> emissions due to deforestation and forest degradation are greatest. It will provide co-finance for interventions 1 & 2 under Nepal's ERPD.

It will include: handover of remaining forest areas to CBFM groups (of various types); supporting new and existing CBFM groups with operational plan/management plan and constitution preparation and revision and implementation of plans; land allocation inside CBFM areas for poor and *Dalit* households with emphasis on fodder production; supporting CBFM group governance especially for enhancing participation, leadership, decision-making and benefit sharing by IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor; Supporting local climate change adaptation planning and implementation of activities through CBFM groups for enhancing climate resilience of IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor households; pro-poor public land management working closely with local municipalities and capacity development, coaching and awareness raising for CBFM groups and member households and for local municipalities to enhance collaborative leadership, coordination and fund management.

**Project 2 will promote Forest Management for Forest-based Economy** in established and productive plantations under CBFM group management in the Middle Hills and productive natural forest in the Terai by linking CBFM groups with private entrepreneurs at a landscape level to plan and implement sustainable timber harvesting and establish small-medium scale timber utilisation industries locally. Preparing and implementing timber harvesting/utilisation plans for selected CBFM groups at a landscape level.

It will include: supporting CBFM groups and individual entrepreneurs to obtain equipment for timber harvesting, transport to roadside, safety etc. and for training in its use; supporting the establishment of community-private partnerships between entrepreneurs and CBFM groups for agreements on sale/purchase of timber and investment into small-medium timber enterprises for sawmilling, wood peeling, timber treatment, seasoning and others; negotiating and supporting the deregulation of timber harvesting, sales, transport and utilisation with selected state governments and municipalities in project areas; changes to Nepal Rastra Bank policies to recognize forestry as a productive sector and make mandatory policy provisions for banks and financial institutions to spend at least 2-3% of their total loan portfolio in forestry; working with banks and financial institutions to re-formulate their policies and procedures to make provision for concessional loans (piloting subsidised interest rate) for larger commercial forest industries; capacity and skills development and market linkage services for micro/small forest-based enterprises in rural communities; supporting subsidised insurance premiums and import duties for new timber-based forest enterprises and skills development and access to finance for IPs, women, *Dalits*, *Madhesis* and other forest dependent poor to gain employment in timber-based forest enterprises.

**Project 3 will support Private Land Forest Development** for establishment of plantations of fast-growing timber tree species on underutilised or abandoned private agricultural land in both the Hills and Terai, targeting districts where such land is most extensive and often degraded.

It will include: Identifying, establishing and supporting landowner/farmer 'groups' for establishing

blocks of fast-growing plantations on under-utilised agricultural land and registering the land as private plantations (focusing on women's groups wherever possible); linking farmer groups with private investors through medium-term lease and buy-back agreements to attract capital to establish plantations; subsidising plantation costs through performance-based payments for establishment and maintenance and insurance premium subsidies with additional incentives for particularly climate vulnerable areas e.g. along flood-prone river margins in the Terai; linking plantation establishment with fodder and stall-feeding investments to reduce grazing damage; supporting women's groups for certification under recognised PES schemes e.g. W+ (on a pilot basis); supporting private nursery production including capacity development on new technologies, development of seedling standards, quality assurance and technical assistance and buy-back arrangements and capacity development for nursery and plantation technologies especially for IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor.

**Project 4 will Enhance Environmental Services Through Nature-Based Tourism** in selected municipalities which are 'hot spots' for tourism outside protected areas defined by their ease of access by road and which have attractive natural features such as cool climate, forest recreational areas, water features, scenic views etc.

It will include: area-based planning with municipalities and CBFM groups in identified new tourism areas (outside existing protected areas); supporting small-scale eco-friendly infrastructure e.g. toilets, car parking, water supplies, scenic trails, view-points, alternative energy, sustainable waste disposal, community halls, and homestay facilities etc. through CBFM groups; marketing support for new tourism areas/municipalities with private sector tie-ups; developing standards and registration processes for homestays (with local municipalities); capacity development for eco-friendly homestay management (for women); capacity development for ancillary tourism services e.g. nature guides, handicrafts, cultural shows, music etc. with focus on IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor and promoting agricultural product production and sale to tourists e.g. organic fruit, vegetables from the adjacent area

**Project 5 will implement Watershed Management Through Innovative Technologies** to rehabilitate degraded unproductive dryland forest in selected river valley locations through intensive and innovative soil and water conservation and bioengineering treatments combined with plantation establishment and fodder development with all activities being carried out through CBFM groups.

It will include: rehabilitating degraded forest under CBFM by a combination of plantation and intensive soil and water conservation technologies incorporating traditional plantation technologies linked to CC adaptation e.g. for water infiltration, runoff control and bioengineering using grasses, shrubs and bamboo; supporting activities through CBFM groups using performance-based payments system; supporting LHF groups and others with grass planting and livestock development with especially focus on targeted poor households; capacity development for CBFM group members and government staff in appropriate soil and water conservation technologies; promoting seedling production (trees, grasses and bamboo) and supply through supporting locally established private nurseries and fire management activities.

**(d) Expected outcomes from implementation of the Investment Plan**

The combined outcomes for all five proposed projects of the FIP-IP combined include:

161,000 ha of forest being managed by CBFM groups with new updated/revised operational plans/management plans and constitutions being implemented and a further 72,000 ha of productive forest brought in sustainable forest management/harvesting plans for timber production. In addition, 900 ha of public land (under municipality ownership) will be brought under management for agroforestry; 10,000 ha of degraded forest under CBFM groups will be rehabilitated with intensive soil and water conservation and bioengineering treatment and 10,000 ha of plantations of fast growing timber tree species will be established on underutilised or degraded agricultural land under private ownership.

150,000 identified poor and *Dalit* and *Madhesi* households will benefit from pro-poor targeted activities such as land allocation (inside CBFM areas), LHF management, public land management

and climate change adaptation; 20,000 households will benefit from enhanced environmental services and climate resilience as a result of rehabilitation of degraded dryland forests under CBFM group management on critical watersheds and a further 5,000 smallholder farmers will be involved in establishing and registering plantations on their own land (about half of these will be registered under women's names).

4 million m<sup>3</sup> of timber will be sustainably harvested from forests under management by CBFM groups over 8 years contributing to the establishment of at least 14 new timber-based forest industries located close to productive forests. This will create almost 9 million person days of green jobs (equivalent to 24,000 full-time jobs) of which 50% will be for IPs, women, Dalits, Madhesis and forest dependent poor households.

Involvement of IPs women, Dalits, Madhesis and forest dependent poor householders as local leaders, decision-makers, executive committee members and income earners in CBFM activities will be significantly enhanced by targeting capacity development support for these groups.

At least 10 regulations concerned with timber harvest, sale, transport and utilisation revised in favour of the establishment of timber-based industry (in at least 2 states) and 10 municipalities will have locally developed area-based tourism plans in place and being implemented through CBFM groups.

Taken together, the five proposed projects will result in 1.5 million t CO<sub>2</sub> emissions reduction or C-capture over the 8 year project period contributing significantly towards Nepal's NDCs.

**(e) Link to activities supported by FCPF and UN-REDD Program**

Project 1 directly supports the first two of six interventions included in Nepal's ERPD submission (still under technical review) under FCPF. Project 2 also contributes to sustainable forest management by CBFM groups which is also an identified intervention under the draft ERPD. Therefore FIP-IP will directly contribute towards achieving the goals for Nepal's ERPD and securing international climate finance in future.

All five investment projects contribute towards addressing the direct drivers of deforestation and forest degradation identified in Nepal's draft REDD+ strategy developed under FCPF and contribute to tackling some of the underlying causes such as weak governance, rural poverty and socio-economic inequity.

**7. Expected Key Results from implementation of the Investment Plan (consistent with FIP results framework and FIP core Indicators)**

Result	Success Indicator
<b>Category 1: Common themes (to be reported on by all countries)</b>	
<b>1a. GHG emission reductions or avoidance/enhancement of carbon stocks</b>	Tonnes of CO <sub>2</sub> e emissions reduced or C-captured by planting and forest restoration in Nepal's forest sector over the 8 year project period. [Target: About 1.5 million tonnes CO <sub>2</sub> e over 8 years in a very conservative estimates]
<b>1b. Livelihoods co-benefits</b>	Number of household members of CBFM groups with enhanced livelihoods through employment, cash incomes, improved environmental services and enhanced resilience to climate change (disaggregated by gender, ethnicity and caste) [Target: 150,000 poor and disadvantaged households benefiting]
<b>Category 2: Other relevant co-benefit themes</b>	
<b>2a. Biodiversity and other environmental services</b>	Area of forest protected (under CBFM) resulting in reduced deforestation and forest degradation [Target 161,000 ha (Project 1); 5,000 ha (Project 4)] Area of degraded dryland forest under CBFM groups enhanced (with improved environmental services) [Target 10,000 ha (Project 5)] Area of tree plantation established on unproductive and/or degraded private agricultural land

	[Target 10,000 ha (Project 3)]					
<b>2b. Governance</b>	<p>Number of states and municipalities with multi-stakeholder forest governance structures in place</p> <p>Number of states with revised regulations on timber harvesting, sales, transport and utilisation supportive of SFM and being implemented</p> <p>Number of CBFM groups with improved representation of IPs, women, <i>Dalits</i>, <i>Madhesis</i> and poor forest dependent people on executive committees</p> <p>Area of forest inside CBFM areas allocated for use by poor households (especially <i>Dalits</i>) for fodder/livestock production</p>					
<b>2c. Improved access to finance for forest sector including results-based finance for REDD+ and SFM</b>	<p>Changes to Nepal Rastra Bank policies to recognize forestry as a productive sector and make mandatory policy provisions for banks and financial institutions to spend at least 2-3% of their total loan portfolio in forestry.</p> <p>Number of banks and financial institutions providing finance for forest-based enterprise</p> <p>Area of plantation established on private land with results based subsidies from FIP-IP</p>					
<b>2d. Capacity development</b>	<p>Number of IPs, women, <i>Dalits Madhesis</i> and forest dependent individuals on executive committees of CBFM groups</p> <p>Number IPs, women, <i>Dalits, Madhesis</i> and forest dependent households employed in forest based enterprises</p> <p>[Target at least 50% of new jobs created for these groups]</p>					
<b>8. Project and program concepts under the Investment Plan</b>						
Project/Program concept title	Requested FIP amount (\$)			Public sector/private sector (GoN + Private + community)	Expected co-financing (\$)	Preparation grant request (\$)
	Total	Grant	Loan			
1. Sustainable forest management through CBFM	6m	3m	3m	5.1m	8.8m	100,000
2. Forest management for a forest-based economy	6m	1m	5m	17.9m	4.9m	100,000
3. Private land forest development	6m	0	6m	21.0m	5.7m	100,000
4. Enhanced environmental services through nature-based tourism	1m	0	1m	0.3m	0.3	100,000
5. Watershed management through innovative technologies	5m	2.1m	2.9	4.9m	9.4m	100,000
<b>Total</b>	<b>24m</b>	<b>6.1m</b>	<b>17.9m</b>	<b>49.2m</b>	<b>29.2m</b>	<b>500,000</b>
<b>9. Timeframe (tentative) – Approval Milestones</b>						
	<b>FIP sub-committee approval</b>				<b>Expected date of effectiveness</b>	
<b>All projects (1-5)</b>	December 2017				By November 2018 after detailed project preparation is completed	
<b>10. Link with FCPF and UN-REDD Program Activities</b>						

Nepal's FIP-IP is strongly linked with the implementation phase of Nepal's REDD+ strategy. In particular, the implementation of interventions 1 and 2 planned for Nepal's ERPD will be supported from FIP-IP finance. This will have direct impacts on emissions reductions from deforestation and forest degradation in the Terai – where these are currently the highest in Nepal and as a result Nepal will be supported in its move towards results-based payments.

The FIP-IP has been developed to be consistent with Nepal's draft REDD+ strategy and will comply with Nepal's SESA – funded via FCPF as part of Nepal's REDD+ readiness finance.

**11. Other parties involved in design of the Investment Plan**

The REDD IC led the preparation of this FIP-IP with the support of a national level consultant team with international backstopping and coordination and under the guidance of a FIP-IP Steering Committee established for the purpose. Representatives from the World Bank in Washington DC and Kathmandu also attended many meetings and discussions. Names of the steering committee members, officers actively involved in the process from REDD IC and experts of the consulting team involved in designing of the Investment Plan are provided in Annex 6 and 7 respectively.

The preparation of this FIP-IP is closely linked with the development of a plan for Nepal's DGM, and an outline for this has been included in Annex 3 as the basis for further discussions and consultations that will take place in order to finalise a DGM plan.

All major stakeholder groups in Nepal's forestry sector have been involved and/or consulted during the preparation of the FIP-IP, including: Government of Nepal (Ministry of Forests and Soil Conservation and its different departments; Ministry of Environment and Population; Ministry of Livestock Development; Ministry of Finance and National Planning Commission); representatives from the private sector including entrepreneurs in the forest sector; trade and industry federations, banks and financial institutions; community-based organisations including CBFM groups in different parts of the country; civil society including NGOs, federations and associations and their members; individual experts; representatives of Nepal's development partners and INGOs and elected representatives (at local level).

**12. Consultations with Indigenous Peoples and local communities**

Several consultation meetings have taken place with representatives of the main federations representing IPs and community groups in Nepal's forestry sector including with NEFIN, FECOFUN, ACOFUN, DANAR and HIMAWANTI. All these were invited to the national level consultation workshops and state level workshops and focus group discussions were held with individual organisations. In addition to these, various individual members were separately consulted during Key Informant Interviews. A summary of the consultative process is given in Annex 2.

**13. Private sector involvement**

Representatives from private sector organisations and individual entrepreneurs were involved in national level consultative and sharing workshops, state level workshops and as key informant interviewees. Individuals included industry/enterprise owners in the forestry sector and representatives from banks and finance institutions.

**14. Other relevant information**

## Section 1 Description of the Country and Sector Context

1. Nepal is a landlocked country in South Asia with an area of 147,181 km<sup>2</sup> and a population estimated to be 28.9 million in 2017. Population growth has averaged about 1.35% p.a. over the past decade<sup>1</sup>. Nepal remains one of the least developed countries in Asia with a Human Development Index (HDI) of 0.458 in 2011, the second lowest in South Asia, and with a per capita GNI estimated to be \$730 in 2016. However, Nepal has made considerable progress in reducing poverty over the past decade with the percentage of people living on less than \$1.25 a day being reduced from 53% in 2003-04 to 25% 2010-11 and with several social indicators in education, health and gender also having improved over the same time period although disparities between different groups remain prominent. For example, the Nepal Living Standard Survey (2011) found that *Dalits* bear a much higher burden of poverty (42%) than non-*Dalits* (23%)<sup>2</sup>.
2. Nepal has undergone major political, economic and social change in recent years. In 2015, the Constitution of the Federal Democratic Republic of Nepal came into effect structuring the country into three levels: the federation (at centre), seven states (provinces) and 753 local units (also called municipalities) - Figure 1. Local elections were held during the period of preparing this Investment Plan (IP) in 2017 - these were the first local elections for 15 years. State and federal elections will take place in late 2017 and then new structures for government and administration will be developed. This represents a fundamental change for Nepal with huge implications for the functions and responsibilities of government at all levels.
3. It is clear that these changes will have a strong transformative influence on forest sector governance for the foreseeable future - although many of the details have still to be worked out. Responsibility for the forest sector is now broadly split between the federal level, (responsible for the national regulatory and policy environment and national parks), whilst the states and municipalities become directly responsible for forest management. States are empowered under the new constitution to develop and enact their own forest policies, laws and regulations appropriate to their own contexts. In responding to the new constitution, the present government forestry administration will undergo considerable change. Functions previously held centrally will be devolved to the states and/or local levels and there will inevitably be capacity gaps at these levels – at least during the initial years. In addition, as part of a process for downsizing bureaucracy and cost reduction, the High Level Federal Administrative Restructuring Committee of the Government of Nepal (GoN) has announced plans for reducing the total number of Ministries to a maximum of 18. This may mean that the present Ministry of Forest and Soil Conservation (MoFSC) will be combined with the Ministry of Environment at federal level and also in each state.
4. Recent changes in Nepal build on earlier political changes starting with the movement towards democracy in 1990 that liberalised the economy, increased the involvement and clarified the roles of communities, civil society, NGOs and the private sector as implementers, service providers and investors. In the forestry sector, the Forest Act (1993) and subsequent Forest Regulations (1995) with later amendments established the foundations for community forest governance and made significant tenure reforms that led to the expansion of Community Based Forest Management (CBFM) in Nepal to a level that has received worldwide recognition.

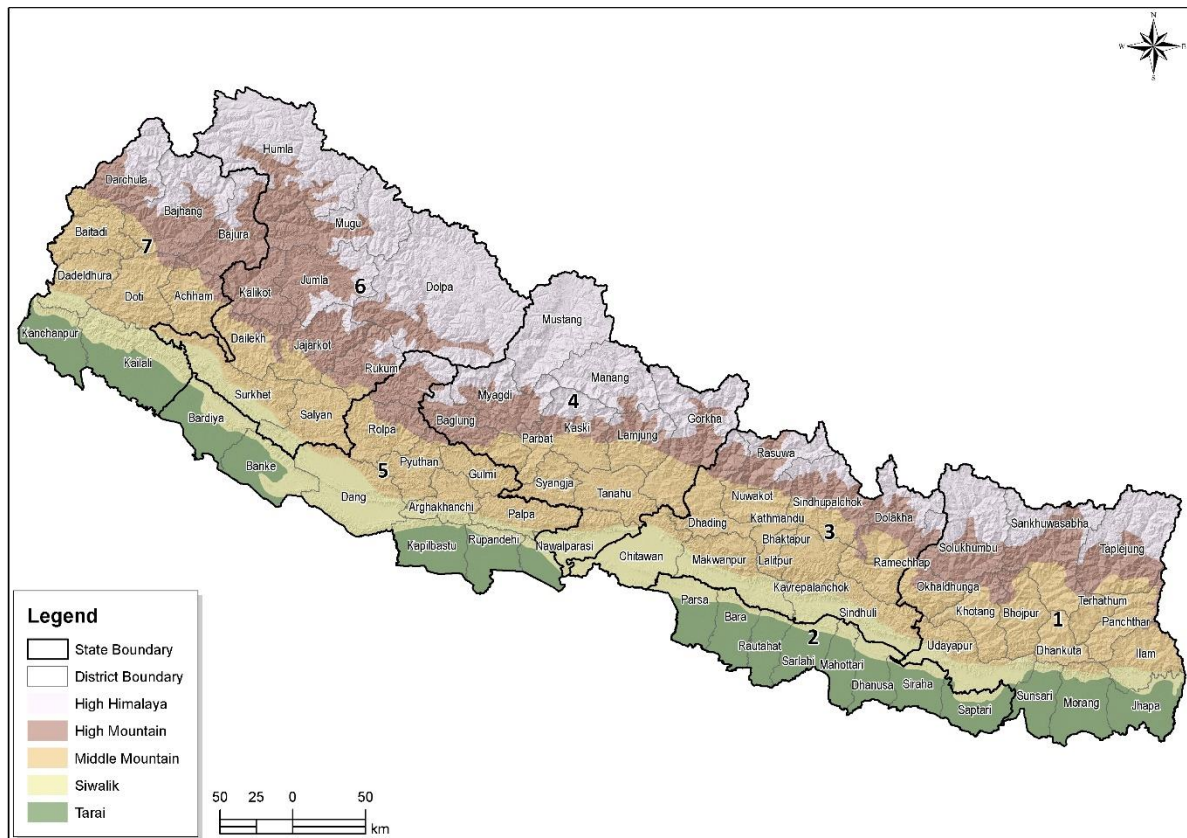
---

<sup>1</sup> Nepal, Country Profile, World Bank. <https://data.worldbank.org/country/Nepal> accessed September 2017

<sup>2</sup> Central Bureau of Statistics, GoN, cited in GESI Working Group, (2017)

- Nepal's total forest area is 6.4 million ha representing a forest cover across all regions of 44.7% (including shrubland)<sup>3</sup> - Figure 2. The estimated growing stock of Nepal's forests is 982.3 million m<sup>3</sup> or an average stocking of 164.8 m<sup>3</sup>/ha (High Mountains 225.2 m<sup>3</sup>/ha; Middle Mountains 124.26 m<sup>3</sup>/ha and Terai and Chure 161.66 m<sup>3</sup>/ha). The mean carbon stock of Nepal's forests (including above and below ground biomass and soil carbon) is 176.9 t/ha with 61.5% of this in the tree component and 37.8% in forest soils<sup>4</sup>.

Figure 1: Nepal's new administrative structure and ecological regions

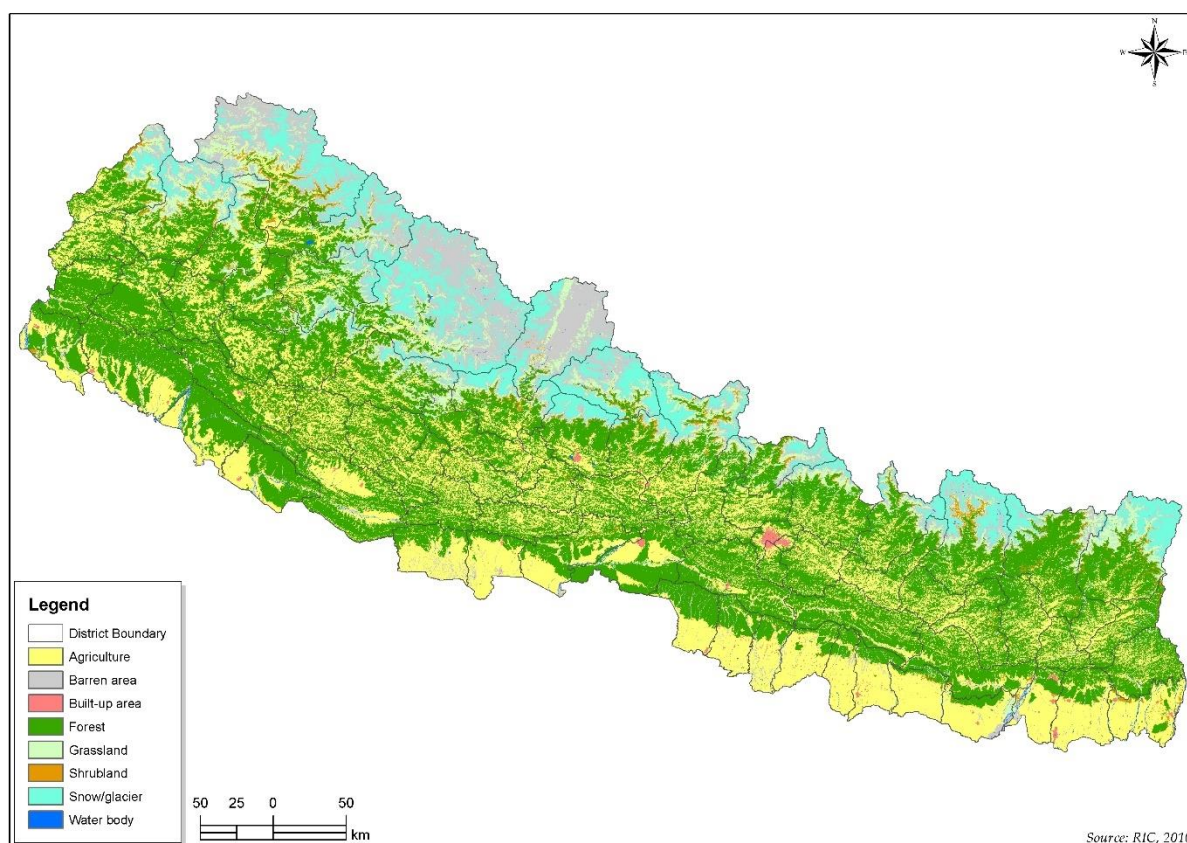


- Forest land in Nepal is owned either by the state (national forest and protected areas) or individuals (private forest). National forest is managed under different tenure regimes including government-managed block forest, protection forest, community forest (CF), collaborative forest (CFM), leasehold forest (LHF) and religious forest. About 23% of Nepal's land area has been designated under various categories of protected area including national parks, reserves, conservation areas and buffer-zones. Forest tenure regimes and governance frameworks are defined by policies, legislation and institutions established at central government and community levels. The Department of Forests (DoF) and the Department of National Parks and Wildlife Conservation (DNPWC) within MoFSC currently have management, regulatory and oversight roles and are responsible for regulation of private forests.

<sup>3</sup> DFRS (2015) State of Nepal's Forests. Forest Resource Assessment, Nepal. MoFSC, Kathmandu

<sup>4</sup> DFRS (2015) State of Nepal's Forests. Forest Resource Assessment, Nepal, MoFSC, Kathmandu

Figure 2: Nepal's Forest Cover



7. Over the past three decades, government forest has gradually been transferred to CBFM groups under various models which have developed in response to different geographical and socio-economic contexts. These groups now manage about 2 million ha or about 34% of Nepal's forest. Almost 20,000 community forest user groups (CFUGs) protect and manage approximately 1.88 million ha of CF in all regions of Nepal; twenty-eight CFM groups protect and manage about 70,000 ha of forest in the Terai and about 40,000 ha of forest have been transferred to about 7,000 LHF groups mostly in the Middle Hills. CBFM is a longstanding national priority and remains a priority development programme under the 14<sup>th</sup> National Development Plan although the pace of handover has been reduced in recent years, partly due to a reduction in externally funded programmes in Nepal's forest sector, but also because in many districts, a large proportion of the accessible forest has already been handed over. In the Terai, handover of forests to various CBFM groups has been limited in recent years due to a lack of clear policy direction and political will, although this has been resolved following Nepal's Forest Policy of 2015 and there is now a backlog of applications by communities for transfer<sup>5</sup>.
8. The rate of deforestation and forest degradation has been reduced in recent years and the overall state of forests is improving<sup>6</sup>. The mean annual rate of loss of forest and shrubland (combined) was 0.47% during the period 1978/79-1994 and 0.53% over the period 1990-2000. However, this negative trend has been reversed more recently and from 2000-2010 there was an annual increase in forest and shrubland cover of about

<sup>5</sup> MoFSC (2017) Draft Emissions Reduction Program Document (Terai Arc Landscape)

<sup>6</sup> ICIMOD (2015) Assessment of change in Forest Cover and Biomass using Geospatial Techniques to Support REDD+ Activities in Nepal. ICIMOD Working paper 2015/5, Kathmandu



0.8% largely due to the development and promotion of CBFM of various types<sup>7</sup> and also as a result of the abandonment of agricultural land and its gradual reversion to forest. An estimated 18-38% of agricultural land has been abandoned or is unutilised in some Middle Hills districts<sup>8</sup>.

9. There is considerable regional variation in deforestation and forest degradation rates across the country. The Terai, which has the lowest percentage forest cover of Nepal's regions (20.8%), experienced an annual deforestation rate of 0.44% over the period 1999-2010. The Chure Region, with a forest cover of 73.6% had an annual deforestation rate of 0.18% over the same period. The Middle Mountains has 53.7% forest cover which is now reportedly increasing (but the rate is not specified in the data); and the High Mountains and High Himal together have a forest cover of 37.8% which also reportedly increased over the period 1994-2010<sup>9</sup>. Transfer of forest to CBFM groups is an effective way to reduce or halt deforestation and forest degradation and hence reduce CO<sub>2</sub>-emissions. Many formerly degraded forests have recovered well after a prolonged period under community management and now represent a significant natural resource with productive potential for yielding a range of forest products and other co-benefits.
10. At 0.2 tonnes CO<sub>2</sub>e per year, Nepal's per capita GHG emissions are amongst the lowest in the world. Land-use changes resulting in conversion of forest and forest degradation together account for the single largest source of Nepal's GHG emissions<sup>10</sup>. Whilst deforestation and forest degradation have been reduced over recent years, a number of drivers still negatively affect Nepal's forests and contribute to GHG emissions from these land-use changes. These drivers affect different forest landscapes or regions in significantly different ways as shown in Table 1. Relationships between drivers of deforestation and degradation and their underlying causes are complex, but in all cases drivers have multiple underlying causes hence these are shown together across all drivers.
11. Nepal's economy is largely agricultural-based with agriculture employing about 76% of the workforce. Subsistence farming as still practiced over much of the country depends on the close integration of agriculture with forests for energy (fuel), building material, 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 9.45%<sup>11</sup> and the forestry sector is estimated to provide full-time equivalent jobs for 9.23% of the economically active population<sup>12</sup>. Whilst the country's economic growth was fairly high (above 3% p.a.) over the past decade, it dropped sharply in 2015 (2.7%) and 2016 (0.6%) as a result of the devastating earthquakes of 2015 and the economic blockade of the Indian border in 2015. Sources of economic growth include agriculture, construction, financial and other services with remittances from overseas workers making the largest contribution (estimated at 25-30% of GDP). Inflation is estimated to be about 9% at present.

---

<sup>7</sup> GoN/MoFSC (2015) Nepal REDD+ Strategy Part 1: Operational Summary, REDD Implementation Centre, Kathmandu

<sup>8</sup> FAO (undated). Briefing note of Project for Enhancing rural livelihoods in underutilised/abandoned agricultural land through agroforestry (TCP/NEP/3602)

<sup>9</sup> DFRS (2015) State of Nepal's Forests. Forest Resource Assessment, Nepal. MoFSC, Kathmandu

<sup>10</sup> GoN/MoPE (2014) Second National Communication Report to IFCCC

<sup>11</sup> NFA (2008) Contribution of Forestry Sector to Gross Domestic Product in Nepal, Dept. of Forest Research and Survey, Government of Nepal, Kathmandu

<sup>12</sup> ERI (2011) Employment in Nepal's Forest Sector, Livelihoods and Forestry Program, Kathmandu

**Table 1: Direct drivers, priorities, affected regions and their underlying causes<sup>13</sup>**

Driver		Affected Region				Effect	Underlying causes
		HM	MH	S	T		
1	Unsustainable harvesting and illegal harvesting	2	3	1	1	Degradation	1. Disproportionate population distribution and migration pattern 2. Policy gaps and poor implementation as well as policy contradictions among different sector or jurisdictions 3. Poverty and limited livelihoods opportunities 4. High dependency on forest products and gaps in demand-supply 5. Lack of land-use policy and insecure forest tenure 6. Poor governance and weak political support 7. Weak coordination and cooperation among stakeholders 8. Inadequate human resource development and management 9. Low priority to research and development 10. Poor coping strategy for natural disaster and climate change
2	Forest fire	1	3	1	2	Degradation	
3	Infrastructure development (including man-made disasters)	2	1	2	4	Deforestation	
4	Overgrazing/unc controlled grazing	1	4	1	1	Degradation	
5	Weak forest management practices (unmanaged/und ermanaged)	1	3	1	1	Degradation	
6	Urbanisation and resettlement	5	5	1	1	Deforestation	
7	Encroachment	5	5	1	1	Deforestation	
8	Mining/excavati on (sand, boulders, gravel)	5	3	1	1	Deforestation & degradation	
9	Expansion of invasive species	5	4	1	1	Degradation	
HM – High Mountain; MH – Middle Hills; S – Siwalik/Chure; T – Terai							
1 – Very high effect; 2 – High effect; 3 – Medium effect; 4 – Low effect; 5 – Very low effect							

12. A study<sup>14</sup> has estimated that Nepal’s fuelwood demand in 2020 will be 11.71 million tonnes against a potential supply of 11.53 million tonnes. Similarly, the estimated timber demand in 2020 is estimated to be 3.75 m tonnes compared with a potential supply of 4.12 m tonnes. This favourable national position is complicated by the fact that there is a surplus of wood (both fuelwood and timber) in the hills and mountains but a shortage in the Terai. Moreover, transport and communications do not easily facilitate movement of wood to where it is required. The movement of timber to urban areas is also considerable and the same report estimates that about 125,000 m<sup>3</sup> of timber is transported annually to Kathmandu from the Terai. In practice, current domestic timber production is considerably less than its potential as estimated above. The earthquakes in 2015 are reported to have also exacerbated the demand for timber for reconstruction in affected areas.

13. According to Federation of Forest Based Industry and Trade Nepal, at least 0.83 million m<sup>3</sup> of mostly softwood timber was imported from Malaysia, Indonesia, Burma, Vietnam,

<sup>13</sup> Adapted from draft Nepal REDD+ Strategy (2016)

<sup>14</sup> Kanel *et al* (2012) A study on the demand and supply of wood products in different regions of Nepal.

New Zealand, Denmark, Africa and Australia in 2015 at a cost of NRs 88 billion. At the same time about 1 million m<sup>3</sup> of timber from Nepal's forests was decaying and wasted due to strict regulations against extracting dead trees<sup>15</sup>. Despite well-stocked and potentially productive forests, most timber based industries in Nepal rely on timber imports. During FIP-IP consultations, manufacturers in Kathmandu estimated that about 80% of their requirement for processed softwood timber is imported. In the market, local Nepali sal timber is more expensive than imported Malaysian sal.

14. Analysis of the linkages between forests and poverty in Nepal has focused around the potential for CBFM to contribute to poverty reduction and enhanced social inclusion. For Nepal's poorest households in remote rural areas especially for women, forests are often vital resources that support their subsistence livelihoods. Experiences have shown that women are excluded from leadership and decision-making despite their high engagement and dependence on forests and despite policy provisions. Forests act as a safety nets and sources of cash income from sale of products where few other opportunities exist. In addition, the environmental services provided by forests for soil, water and biodiversity conservation are vital for rural populations, their agricultural production and their resilience to the impacts of climate change. There are many documented examples<sup>16</sup> describing how poor and/or socially excluded households have benefitted from their involvement with CBFM although the extent to which this is sustainable beyond the life of externally funded projects or the extent to which the ultra-poor can effectively benefit has been questioned by many academic studies.
15. Many CBFM groups have made specific provision for their identified poor household members such as the allocation of land inside forest areas for such households to produce fodder. Under current Guidelines for the Community Forestry Development Program, CFUGs are required to invest at least 35% of their funds into pro-poor targeted activities. Leasehold forest management is a different modality of CBFM that aims to focus exclusively on poor households by forming groups and using forests for fodder and livestock rearing. Similarly, groups formed for public land management (in the Terai) mostly comprise of poor and women members who benefit from the land by a range of agroforestry interventions that provide them with cash incomes. These pro-poor targeted interventions have been well-appreciated by disadvantaged groups (especially Dalits and women) and there is now considerable scope to expand them. However, it also appears likely that external factors, particularly the development of infrastructure (roads) and communications, provision of services such as health and education and increased levels of overseas remittances from migration have significant and usually greater positive impacts on poverty.
16. In a major shift in Nepal's demographic and economic pattern over the past two decades increasing numbers of migrants (mostly young males) are leaving rural areas to seek employment either in urban areas or overseas. This has had a significant impact on overseas earnings with remittances now being the largest single source contribution to GDP (25-30%). It also has impacts in rural areas on land-use and social change including changes in subsistence agriculture practices and a reduction in livestock numbers (especially free grazing). Increasingly, marginal or less productive agricultural land which requires higher labour inputs and gives lower yields is being abandoned. In many rural villages, there are significantly fewer working-age males and an increasing number

---

<sup>15</sup> Reported in the Himalayan Times, June 20<sup>th</sup> 2016. <https://thehimalayantimes.com/kathmandu/80-per-cent-timber-imported-foreign-countries/>

<sup>16</sup> MSFP (2016) Results, Good Practices and Lessons from the Multi-Stakeholder Forestry Programme

of female-headed households who often experience increasing time-poverty as a result. In addition to increasing incomes from remittances other factors such as improved road networks and better educational services are contributing to a gradual shift away from subsistence to a market-based economy. This effect is most marked in areas accessible to Nepal's urban centres.

17. Nepal is a signatory to the UNFCCC, the Kyoto Protocol and the Paris agreement and as such has initiated a series of REDD readiness activities with the support of the FCPF of the World Bank and UN-REDD to which other international donors have also contributed. Nepal's Nationally Determined Contribution (NDC) was communicated to the UNFCCC Secretariat in 2016 including a commitment (amongst others) to reduce emissions resulting from land-use change by enhancing forest carbon stock by 5% above the 2015 level and by reducing the annual rate of deforestation in the Terai and Chure by 0.05% below 2015 levels, both by 2025, with both these being milestones from Nepal's Forest Sector Strategy (2016)
18. Governance of Nepal's REDD program, to which FIP is linked, is characterised by being multi-level and multi-stakeholder. A multi-stakeholder consultation approach is now commonly used for designing new strategies and programs – as was the case with this FIP-IP. The institutional mechanism for REDD+ in Nepal is now well established and functions through a 3-tier structure consisting of (i) a multi-sectoral and multi-stakeholder coordinating body (Apex Body) (ii) a REDD working Group and (iii) the REDD IC as the coordinating entity. Two peripheral mechanisms, a Stakeholder Forum and a REDD+ CSOs & IPOs Alliance have also been established to develop a common understanding on REDD+ among all stakeholders including IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor and their representative federations and associations as well as for Civil Society Organizations.
19. The REDD Implementation Centre (REDD IC) (formerly the REDD Forestry and Climate Change Cell) was established in 2009 within MoFSC. The REDD IC prepared and submitted Nepal's Readiness Preparation Proposal (RPP) in 2010 which was endorsed by FCPF later that year. This identified a number of steps to be taken as part of Nepal's REDD readiness amongst which was the preparation of a REDD+ Strategy. This strategy was completed through a multi-stakeholder consultation process in 2016 and the final draft awaits approval from Government of Nepal. The 12 key strategies included in it are shown in Table 2. More details on the interventions identified under each of these strategies is shown in Table 3 and also in Annex 4 which contains key elements of Nepal's REDD+ strategy document.
20. Whilst developing the FIP-IP and implementing REDD+ readiness measures, the REDD IC has simultaneously coordinated the preparation of an Emissions Reduction Program Document (ER-PD) which is still undergoing technical review by FCPF. The ER program consists of 7 interventions aimed at reducing forest carbon emissions from an area of 2,172,800 ha in the Terai Arc Landscape (TAL) covering 12 districts of the western Terai and Chure regions. Proposed interventions to achieve this include: (i) Improve the management practices under CBFM models building on traditional and customary practices, (ii) Transfer of National Forests to Community and Collaborative FUGs, (iii) Engage private sector forestry through improved access to finance and inputs, (iv) Expand alternative energy with biogas and improved cook stoves, (v) Scale-up pro-poor leasehold forestry (vi) Support integrated land-use planning and (vii) Support to Protected Area Management.

**Table 2: Nepal draft REDD+ Strategy (2016): 12 Key Strategies for Emissions Reduction**

Strategy	
1	Reduce carbon emissions, enhance forest carbon stocks, and improve supply of forest products
2	Increase non-carbon benefits of forests ecosystems
3	Promote private and public land forestry
4	Promote optimum land use across all the physiographic regions
5	Improve forest tenure, ensure carbon rights and fair and equitable benefit sharing among right holders, Women, Indigenous Peoples, <i>Madhesis</i> , <i>Dalits</i> , and forest-dependent local communities
6	Promote forest-based enterprises for livelihood and economic development with strong role of the private sector
7	Increase agricultural productivity of forest-dependent and other smallholders
8	Increase access to sustainable, affordable and reliable alternative energy
9	Improve collaboration, cooperation and synergy among sectoral policies, sectors and actors
10	Improve capacity, institutional performance and service delivery of the forestry sector institutions, right-holders and relevant stakeholders
11	Ensure Social and Environmental Safeguards including environment-friendly development
12	Establish and maintain a robust and well-functioning national forest monitoring system

21. Nepal has just concluded its collaboration with the UN-REDD Programme as an observer country, making it one of only a handful of countries in Asia belonging to both the FCPF and UN-REDD global initiatives. Support from the UN-REDD has been provided through FAO and UNDP for capacity development and for various studies such as on Nepal's reference levels and safeguards that are necessary for developing and implementing Nepal's national REDD+ ambitions. For REDD+ capacity building at community level, various civil society initiatives have been running since 2008, funded by the Norwegian government which has also funded a pilot program for establishing a Forest Carbon Trust Fund (FCTF)<sup>17</sup>.

<sup>17</sup> Khatri *et al* (undated) REDD+ Financing: What we can learn from the piloting of the Forest Carbon Trust Fund in Nepal? Study conducted for ICIMOD, Kathmandu

## Section 2 Identification of Opportunities for Greenhouse Gas Abatement

22. Nepal's commitments, communicated to UNFCCC in 2016 as part of its Nationally Determined Contribution (NDC), include the following targets directly associated with the forest sector:

- To maintain at least 40% of the total area of the country under forest cover
- To reduce about 14 million tonnes of CO<sub>2</sub>e after 5 years with a sub-national project on REDD+

Forestry sector implementation strategies are also identified in Nepal's NDC including:

- a. Institutional strengthening to ensure implementation of REDD+ programs;
- b. Establishment of coordination mechanisms to guide actions on the ground under REDD+ and to enhance awareness and communication at different levels;
- c. Scaling up biogas and improved cooking stoves (130,000 households, 1,000 institutional and 200 community biogas systems; 475,000 stoves);
- d. Afforestation on public and private lands;
- e. Sustainable management of forests to enhance carbon storage (maintain 40% forest cover); and
- f. Conservation and management of forests and watersheds in the Siwaliks.

23. Strategies for emission reductions and enhancement of forest carbon stocks identified in Nepal's draft REDD+ Strategy along with details of the proposed actions under each are reproduced in *Table 3*. Additional opportunities for greenhouse gas abatement through reducing forest emissions and forest carbon stock enhancement are included in Nepal's Forest Policy (2015) and Forestry Sector Strategy (2016). Both these documents contain actions which do not directly contribute to forest sector emission reductions therefore these actions were not considered as potential investment projects for Nepal's FIP-IP<sup>18</sup>. Furthermore, most of the identified emissions reduction opportunities in Nepal's Forest Policy and Forestry Sector Strategy were subsequently incorporated into the draft REDD+ strategy. Other opportunities for emission reductions (specifically for tackling the identified drivers of deforestation) have been identified in the Policies and Measures (PAMs) document produced with the support of UN-REDD<sup>19</sup>. This document identifies 67 specific measures to tackle the 8 drivers. These measures have, to a large extent, also been included in the draft REDD+ strategy. *Table 3* therefore comprises a broad list of potential investment opportunities for greenhouse gas abatement and carbon sequestration in the forestry sector which were the subject of further consultation and discussions during Nepal's FIP-IP preparation.

24. During the consultative process for the preparation of Nepal's FIP-IP (described in Annex 2), participants representing different stakeholder groups and their constituencies were encouraged to identify additional priorities, make suggestions and initiate new investment ideas. Although a diversity of suggestions arose, these mostly represented potential investments that had already been identified in the draft REDD+ Strategy, although with more details based on actual project experiences and local innovations. Suggestions for implementation modalities and roles for specific forest sector institutions

---

<sup>18</sup> Including Fire management and control; controlling invasive species; addressing human-wildlife conflict; promotion of NTFPs and others

<sup>19</sup> Forest Action (2016) Analysis of Policies and Measures in Addressing Drivers of Deforestation and Forest Degradation and Barriers to Improved Forest Management.

were also commonly shared. A common issue raised during the consultative process was that the identified drivers of deforestation and forest degradation in the draft REDD+ strategy were not necessarily all of equivalent importance.

25. Nepal itself is undergoing political transformational changes resulting in governance shifts in response to the provisions of the new constitution. Supporting the forestry sector in the REDD+ readiness process and analysis of the options for doing this has to be considered against the background of this radical restructuring process as it represents the most significant transformational change in Nepal over the past 60 years. Implications for forest sector governance and management are consequently large. Investments are not only needed to implement the actions identified in the draft REDD+ strategy (prepared before the state restructuring was finalised) but also to support and develop new roles, responsibilities, capacities and relationships between federal, state and local levels in the forestry sector under the new democratic system as well as helping to define new roles and functions for civil society organisations, NGOs, communities and the private sector. All of these will experience transformative changes in the upcoming period.
26. Of critical importance is the need to implement actions that contribute to REDD+ readiness and implementation that enhance opportunities for IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor. Experience has shown that such actions must be explicitly incorporated into the investment plan to ensure that there are explicit and targeted co-benefits for such groups and to ensure that the safeguards under REDD+ are fully complied with.

**Table 3: Draft REDD+ Strategy (2016): List of proposed actions**

Strategy	Actions
1. Reduce carbon emissions, enhance forest carbon stocks, and improve supply of forest products	1.1 Identify, delineate, and expand CF, CFM, and other CBFM, and improve their management practices. 1.2 Intensify and expand Sustainable Forest Management (SFM) in all relevant forest management regimes and certify them where feasible. 1.3 Update and improve management plans of all forest management regimes with provisions of carbon stock measurement and monitoring methods and measures to control drivers of deforestation and forest degradation. 1.4 Develop appropriate community-based forest management models specific to High Mountain regions considering the specific context of High Mountain areas. 1.5 Strengthen fire control capabilities of DFOs, Protected Area Management Authority and CBFM Groups with specific management plans, financial and human resources, monitoring, technologies and insurance mechanisms. 1.7 Rehabilitate degraded land by adopting appropriate measures, such as natural regeneration, plantation, and bio-engineering. 1.8 Increase supply of sustainably harvested timber and timber products with improved distribution mechanisms.
2. Increase non-carbon benefits of forests ecosystems	2.1 Improve the management and conservation of forest, protected areas and, watersheds at landscape level by promoting integrated conservations, ecosystem based adaptation measures, and participatory models of ecotourism. 2.2 Address key threats to biodiversity as identified by the Nepal Biodiversity Strategy and Action Plan 2014-2020. 2.3 Identify and implement appropriate measures to address key threats to biodiversity. 2.4 Assess climate change vulnerability of forest ecosystems and strengthen spatial

	<p>planning and integrate them into respective forest management plans.</p> <p>2.5 Develop and promote appropriate institutional arrangements for Forest Ecosystem Service certification and Payment for Ecosystem Services (PES).</p>
3. Promote private and public land forestry	<p>3.1. Simplify regulatory provisions such as registration, harvesting, transportation, sale, processing and incentivize to promote private forestry.</p> <p>3.2 Provide technical and technological services to grow and manage indigenous, fast growing and high-valued tree species in private and public land.</p> <p>3.3 Promote agro-forestry in public land such as canals, roadside, marginal lands, riverbanks through regulatory framework and incentive mechanisms with participation of poor, women and marginalized households.</p>
4. Promote optimum land use across all the physiographic regions	<p>4.1 Promote implementation of the Land Use Policy 2015, particularly provisions related to the forestry sector. Update zoning and mapping of forest land use regularly.</p> <p>4.2 Develop and implement economic and market-based incentives to promote optimal land use.</p> <p>4.3 Develop extension materials on linking climate change and benefits of land use planning and disseminate through mass media and other methods.</p> <p>4.4 Ensure social and environmental safeguards during the formulation and implementation of landuse plan.</p> <p>4.5 Strengthen enforcement and monitoring capacity of district level land encroachment control committee and law enforcement agencies to reclaim illegally occupied forest lands.</p>
5. Improve forest tenure, ensure carbon rights and fair and equitable benefit sharing among right holders, Women, Indigenous Peoples, Madhesis, Dalits, and forest-dependent local communities	<p>5.1 Respect and address safeguard measures on forest tenure security of Women, Indigenous Peoples, <i>Madhesi, Dalits</i>, Local Communities, and Forest-dependent Poor.</p> <p>5.2 Assign carbon rights aligning with forest rights within policies and legal instruments.</p> <p>5.3 Establish transparent and participatory mechanism for marketing and selling of carbon credits arising from future REDD+ activities. Move to governance</p> <p>5.4 Establish transparent and inclusive mechanism for equitable benefit-sharing (carbon and non-carbon benefits) among rights holders.</p> <p>5.5 Recognize and integrate traditional and customary knowledge and practices in forest management plans particularly in CF, CFM and other CBFM.</p>
6. Promote forest-based enterprises for livelihood and economic development with strong role of the private sector	<p>6.1 Revise policies on registration, operation, trade, transport, tax, and subsidy to encourage private investment in forest-based enterprise and wood technologies including bamboo housing, timber drying, wood treatment, compressed and particle board, wood processing, and veneer production through technological innovation.</p> <p>6.2 Invest in sustainable forest-based enterprises such as timber, NTFPs, ecotourism to create employment opportunities producing finished forest products for domestic and export markets that support livelihoods of forest dependent poor.</p> <p>6.3 Simplify regulatory provisions such as registration, transportation, sale, processing that is conducive to private sector involvement in forest-based enterprises, trade and wood/non wood technology development targeting forest-dependent poor and other marginalized groups.</p> <p>6.4 Promote vocational education and skill-based training opportunities for enterprise development and forest operations such as harvesting, logging, sawmilling, carpentry, and wood technologies especially for Women, Indigenous Peoples, Madhesis, Dalits, Local Communities and Forest-dependent Poor.</p> <p>6.5 Improve access to alternative technologies such as small sawmills carpentry, food processing, efficient stoves, kilns, briquettes, power looms and bio-gas by providing information, knowledge and loan services for Women, Indigenous Peoples, <i>Madhesis,</i></p>



	<p><i>Dalits</i>, Local Communities and Forest-dependent Poor.</p> <p>6.6 Incentivize and support Community Based Forest Management User Groups and also link them to local government resources such as matching funds and resource leverage to create incomes, livelihood options and job opportunities for Forest-dependent Poor.</p>
7. Increase agricultural productivity of forest-dependent and other smallholders	<p>7.1 Support climate smart agriculture such as agroforestry, ecological farming, Sloping Agriculture Land Technologies, minimum tillage, direct seeding technologies and use of farmyard manure.</p> <p>7.2 Support to revisit and revise policies for small-scale sustainable agriculture</p> <p>7.3 Promote fodder and forage management in CF, CFM and other CBFM, and private land with increased access to seed/seedling, cultivation, management, and feeding and processing technology.</p> <p>7.4 Conserve and increase water sources and promote efficient water management technologies.</p> <p>7.5 Support forest dependent and smallholders with information, technology and incentives to increase their access for the crop &amp; livestock breeding and husbandry improvement.</p>
8. Increase access to sustainable, affordable and reliable alternative energy	<p>8.1 Promote sustainable, cost-effective alternative energy and energy saving technologies such as bio-briquettes, bio-gas, solar, wind, and Improved Cook Stove through educational, financial and technological interventions.</p> <p>8.2 Simplify the registration process, provide input on technology, and subsidies on equipment for energy production that encourages use of available energy in operating forest-based enterprises.</p> <p>8.3 Develop mechanisms to increase access of forest-dependent poor and marginalized people to alternative energy and energy saving technologies.</p>
9. Improve collaboration, cooperation and synergy among sectoral policies, sectors and actors	<p>9.1 Establish strong coordination mechanism among relevant sectors for integrated planning, implementation, monitoring and evaluation of sectoral policies, plans and programs.</p> <p>9.2 Identify and align legal frameworks in line with international commitments and harmonize between cross-sectoral policies and legal frameworks.</p> <p>9.3 Strengthen multi-stakeholder and integrated planning approach at all levels involving key government and non-government agencies on land, forest, water, agriculture, energy, and infrastructure, and increase consensus and commitments.</p> <p>9.4 Develop policies, legal frameworks and institutions for investment in climate change mitigation including performance-based payment mechanisms.</p> <p>9.5 Sensitize security agencies, media, and civil society on climate change, REDD+ and forest conservation.</p> <p>9.6 Incorporate climate change, roles of forest on climate change mitigation and importance of forest conservation in formal education.</p> <p>9.7 Control cross-border illegal trade of forest products through intercountry cooperation with Indian and Chinese authorities.</p>
10. Improve capacity, institutional performance and service delivery of the forestry sector institutions, right-holders and relevant stakeholders	<p>10.1 Support to re-structure and reform forestry institutions as specified in forestry sector strategy.</p> <p>10.2 Improve management and leadership competency, GESI responsiveness, commitment and morale of forestry personnel through initiatives such as coaching, counseling, performance based incentive mechanism, capacity development programs, and code of conduct.</p> <p>10.3 Support to review and simplify judiciary and judicial processes related to forest law enforcement.</p>

	<p>10.4 Identify capacity needs of forestry institutions as well as communities and equip them with necessary skills, knowledge and logistics to enhance law enforcement.</p> <p>10.5 Increase knowledge and capacities of relevant stakeholders, political leaders, and right holders on climate change and REDD+ through extension, training, workshop and other methods</p> <p>10.6 Institutionalize and strengthen Apex body, REDD Working Groups, REDD Stakeholder Forums with clearly defined roles and responsibilities, proper planning, and review.</p> <p>10.7 Institutionalize REDD Implementation Centre as REDD+ entity with capacity to generate, access, manage and utilize fund for effective implementation of REDD+ related strategies, policies, plans and programs.</p> <p>10.8 Ensure adequate representation and meaningful participation of Women, Indigenous Peoples, Madhesis, Dalits, Local Communities, Private sectors and Forest-dependent Poor in relevant forestry decision-making processes through policy provisions, institutionalization and capacity development.</p> <p>10.9 Establish and strengthen feedback and grievance redress mechanisms that are gender-sensitive and socio-culturally appropriate.</p> <p>10.10 Provide support for capacity and institutional development to improve and maintain governance of CF, CFM and other CBFM groups with enhanced governance practices including public hearing, public audits and performance monitoring.</p> <p>10.11 Promote reward and penalty systems for both government agencies and forest user groups to control illegal harvesting, illegal trade and encroachments.</p>
<p>11. Ensure Social and Environmental Safeguards including environment-friendly development</p>	<p>11.1 Integrate and ensure social and environmental safeguards in all REDD+ programs and activities.</p> <p>11.2 Adopt approach to Free, Prior, and Informed Consent (FPIC) of rights holders particularly, Indigenous Peoples and Local Communities.</p> <p>11.3 Develop and implement alternative rehabilitation arrangements for landless living in forest lands.</p> <p>11.4 Ensure effective implementation IEE and EIA while using forest land under nationally prioritized development projects.</p> <p>11.5 Avoid forest area for infrastructure development, resettlement and make compulsory provision of tree planting to substitute forest area cleared if any</p> <p>11.6 Establish and maintain a National Forest Monitoring System with a robust measurement, monitoring, reporting and verification mechanisms</p>
<p>12. Establish and maintain a robust and well-functioning national forest monitoring system</p>	<p>12.1 Enhance national capability with investment, technology and human resources for conducting forest resource survey and inventory periodically</p> <p>12.2 Develop appropriate capacity of government agencies and local communities for the collection, analysis, storage, management and dissemination of carbon and non-carbon related data and information for planning and MRV.</p> <p>12.3 Establish a well-functioning Forest Management Information System under the National Forestry Monitoring System.</p> <p>12.4 Develop and functionalize cost-effective mechanisms for monitoring, measurement, reporting and verification of REDD+ programs.</p> <p>12.5 Strengthen community-based monitoring systems with identified monitoring indicators in community-based forest management.</p> <p>12.6 Establish spatially explicit information systems on land use potential, allocations and potential conflicts/complementarity with REDD+ strategies.</p>

### Section 3 Enabling Policy and Regulatory Environment

27. The new constitution of Nepal creates new opportunities for enhancing the forestry sector governance and regulatory framework by strengthening local level accountability and responsibility and by tailoring regulatory provisions to meet the needs of individual states. Each state is now empowered to develop its own policy and regulatory framework (including for forestry) and to collect taxes and share revenues. Forest management is now under the responsibility of local and state government. The new Inter-Government Finance Bill passed in October 2017 makes provision for 50% of royalties collected from natural resources to go to the federal government, and 25% each to concerned state and local governments. Despite these undoubted opportunities, there will also be challenges arising from the implementation of new governance arrangements, especially during the next 4-5 years, mainly resulting from lack of capacity and awareness at local levels. The FIP-IP needs to address these capacity gaps to enable new roles and responsibilities to be fulfilled.
28. Prior to the approval of the new constitution, some legislative changes and amendments had already been made in line with new policy directions. These create new opportunities and incentives for stakeholders to participate and benefit from their involvement in the forestry sector (Table 4). For example, the second amendment in 2016 of the Forest Act (1993) has enabled community groups to engage in forest-based enterprises and allows them to enter into partnerships with the private sector. Recent anti-corruption measures being taken through the Commission for Investigation of Abuse of Authority (CIAA) and National Vigilance Centre (NVC) will also contribute to improved sector governance.

**Table 4: Newly created opportunities for Nepal's forestry sector stakeholders**

<b>Stakeholder</b>	<b>New Opportunities</b>
<b>Local communities</b>	<ul style="list-style-type: none"> <li>• Forest Policy (2015) and recently amended forest legislation has assigned sufficient rights to local communities including CFUGs, Collaborative FUGs, &amp; Pro-poor leasehold FUGs to manage their forests and generate income and other benefits based on approved forest management plans.</li> <li>• Central government is committed to allocating a budget for CBFM through local government making such funds more accessible to them in future.</li> <li>• The 2nd amendment (2016) of the Forest Act (1993) has given increased autonomy to FUGs for utilising and benefitting from forest products and establishing enterprises</li> <li>• Community Forestry Development Program Guideline (revised 2015) stipulates compulsory inclusion of women's names along with men's as members in the list of the CFUG's constitution and joint ownership in forest tenure-ship, management and utilization rights.</li> <li>• One of the priority actions in the Forestry Sector Strategy (2016) is: "<i>Promote gender equity, inclusive development and social and economic uplift of the poor, women, Dalits, Janajatis, Adibasi and other marginalised groups of people</i>".</li> <li>• Nepal National Biodiversity Strategy and Action Plan 2014-20 has specifically incorporated the GESI strategy</li> <li>• Recently parliament has endorsed the Nagoya protocol on Access to Benefit Sharing which has created opportunities for benefiting sharing for IPs and local communities</li> </ul>
<b>Local government bodies</b>	<ul style="list-style-type: none"> <li>• Forest is included in the list of concurrent powers of the Constitution of Nepal. Based on this constitutional power-sharing mechanism, local government can develop plans and programs for the management of forests under their jurisdiction by following the forest-related federal and state laws.</li> <li>• Based on the Constitution of Nepal (Art, 56 &amp; 60) local government can collect local taxes from forest-based enterprises and business. This will be an important revenue source for local government in future. Therefore, by promoting and</li> </ul>

	encouraging forest enterprise and business they can improve their tax revenues.
<b>Civil society (CSOs &amp; CBOs)</b>	<ul style="list-style-type: none"> <li>• Forest Policy (2015) has defined the roles of stakeholders (namely CSOs/CBOs) for their full and effective participation in forest sector policy processes and monitoring mechanisms. These stakeholders can thus actively advocate to influence policy process of the forestry sector.</li> <li>• CSOs/CBOs can also work to develop capacity of local government according to the Local Governance Act (2017)</li> </ul>
<b>Private Sector</b>	<ul style="list-style-type: none"> <li>• The 2nd amendment (2016) of the Forest Act (1993) has opened a window for the private sector to form partnerships with government, cooperatives and communities for increasing forest productivity. Also for partnerships between government and the private sector for block forest management or leasing forest areas to private entities.</li> <li>• Provision has been made for 23 tree species and 13 NTFP species plus bamboo (<i>bans &amp; nigalo</i>) for relaxed rules regarding harvest and transport in the 5<sup>th</sup> amendment of the Forest Regulation (1995)</li> <li>• The same amendment has created a new opportunity for FUGs to establish and manage enterprises through private partnerships</li> <li>• The Industrial Enterprise Act (2017) has given greater assurance to the private sector for allowing any part of national forest to be leased for the commercial production of forest products to supply the industrial sector.</li> </ul>
<b>Government agencies</b>	<ul style="list-style-type: none"> <li>• The new Constitution of Nepal has given exclusive power to federation and states (schedules 5 &amp; 6) to formulate policy and legislation for the sustainable management of national forests. Based on this power the federation and states can more appropriately regulate the forestry sector taking into consideration priorities and needs of local government and communities. The enabling environments of different states may thus diverge according to the local context.</li> <li>• States are now able to establish their own Ministries for forest and environment with a single minister.</li> <li>• Combining forest and environment into a single federal ministry and also into single state ministries is an opportunity for the forest sector to benefit more from funding associated with climate change.</li> <li>• The Prevention of Corruption Act (2002) and Good Governance (Management and Operation) Act (2008) has given enhanced powers for government agencies to improve forest sector governance in the public sector including the forestry sector.</li> <li>• GESI strategy (2009) has now to be integrated into all aspects of forest sector planning and implementation</li> </ul>
<b>Development partners</b>	<ul style="list-style-type: none"> <li>• Forestry Sector Strategy (2016), draft REDD+ Strategy (2016) and the Project Bank in the Forestry Sector of Nepal (2015) have defined the key areas or sectors that need support from development partners. This will result in a more coordinated and effective level of international development cooperation in forestry</li> <li>• The Intergovernmental Fiscal Management Act (2017) has defined the priority areas for donor support with the aim of coordinating donor support.</li> </ul>

29. Nepal's 14<sup>th</sup> Periodic Plan (2073-76), the current national development plan, aims to transform Nepal into a middle-income economy by 2030 by achieving annual economic growth of 7.2%. The plan envisages making the forestry sector a significant contributor to this aim and gives priority to several programmes and projects in the forest sector (Table 5).

**Table 5: Objectives and priority programmes of Nepal's 14th Periodic Plan**

Overall objectives:	
<ul style="list-style-type: none"> <li>• Increase forest productivity through SFM</li> <li>• Biodiversity and forest resource conservation and PES</li> <li>• Climate change mitigation and adaptation and climate vulnerability mitigation through watershed management and land and water management.</li> </ul>	
Priority projects	
i. National forest development and management	ii. CF and LHF-based forest development
iii. Biodiversity and wildlife conservation and management	iv. Collaborative forest management
v. Public land agroforestry development	vi. Religious forest management
vii. Plantation and tree seed improvement and private forest development	viii. Green forest enterprise development
ix. Soil conservation, watershed management and climate change hazard mitigation	x. Plant resource survey and research
xi. Forest survey and capacity building	

30. Nepal's Forest Policy (2015) identifies seven key areas of implementation:

- i. Increase the productivity of forestry sector and production of forest products through sustainable forest management.*
- ii. Increase the benefits from environmental services including biodiversity and resource conservation and ensure their justifiable and equitable benefit distribution.*
- iii. Integrate conservation and management of watershed areas to increase land productivity through water and land conservation.*
- iv. Make community managed forests including community, leasehold, collaborative, buffer zone community, protection, religious forests environmentally, economically and socially capable and justifiable and equitable sharing of the benefits.*
- v. Create green employment and value addition by involving private sector in forest development and expansion through forest enterprise promotion, product diversification, and marketing.*
- vi. Implement the mitigation and adaptation approaches for the negative impacts of climate change.*
- vii. Capacitate the management for good governance, inclusion and social justice promotion in forestry sector.*

31. The Forestry Sector Strategy (2016) identifies seven thematic areas for the interventions required to achieve the Forest Policy:

- i. Managing Nepal's forests*
- ii. Managing ecosystems and conserving biodiversity*
- iii. Responding to climate change*

- iv. *Managing watersheds*
  - v. *Promoting enterprise and economic development*
  - vi. *Enhancing capacities, institutions and partnerships*
  - vii. *Managing and using forest sector information*
32. Both the Forest Sector Strategy and the draft REDD+ strategy already adopt a transformative approach to forest sector governance recognising that organisational values, functions, governance structures and systems must be transformed in order to promote a more socially inclusive and accountable enabling environment in which forestry can flourish. The draft REDD+ strategy specifically states that '*REDD+ will be taken as a means of forest governance reform in addition to realizing its emission reduction potentials*'. Both strategies recognise the potential for Nepal's forestry sector to contribute to enhanced livelihoods, climate resilience and economic growth but that if these potentials are to be realised a transformative approach to forestry sector governance is necessary.
33. Taken together, Nepal's Forest Policy (2015) and Forest Sector Strategy (2016) along with the Nepal Biodiversity Strategy and Action Plan (2014-20) provide a supportive framework for making the transformational shifts in governance and regulatory and fiscal frameworks required to achieve the aims of the draft REDD+ strategy. They all emphasise forest sector governance reforms and propose changes to legal and policy instruments to strengthen law enforcement measures, coordination among concerned agencies and use better monitoring as a means to improve the regulatory framework for forestry.
34. Whilst the current policy and regulatory framework is broadly supportive towards the implementation of Nepal's Forestry Sector Strategy and draft REDD+ Strategy, there are still important regulatory gaps and governance challenges and further changes are needed to achieve the full potential contribution of the forest sector to Nepal's socio-economic development. Some of these were identified in Nepal's draft REDD+ Strategy, others were raised during the consultative process for the FIP-IP. These challenges can be grouped into several areas:
- New challenges arising from Nepal's ongoing state restructuring process under the new constitution, particularly with regard to capacities and awareness gaps (especially at local level) and unclear responsibilities or weakly developed linkages between the 3 levels and/or between different stakeholder institutions e.g. between communities and municipalities. However, the restructuring process also offers important opportunities to tackle existing inconsistencies and bottlenecks in the regulatory framework and to localise policies and practices that enhance local accountability.
  - Mismatch between forest policy and practice where potentially supportive and enabling policies may be undermined by their variable interpretation by different individuals or at different levels or where policies are contradicted by actions taking place on the ground. Poorly supported law enforcement, over-frequent regulation changes and over-regulation of some areas e.g. forest product sales, utilisation, transport and enterprise establishment, often without proper consultation or evidence-base exacerbates this mismatch between policy and practice.
  - Contradictions, lack of harmonisation and jurisdictional overlap between enabling forest sector policies and the policies and practices of other sectors including local governance, infrastructure development, energy, mining, tourism, agriculture,

livestock and resettlement create contradictory influences and unclear lines of responsibility and control e.g. between forestry and agriculture or between forestry and infrastructure development.

- The lack of effective systems for land-use planning at all levels (central, state and local). The new constitution gives powers and responsibilities to local government for the formulation of local land-use plans although there are likely to be capacity challenges in doing this. Without a clear national land-use policy and with a National Land Use Plan (2015) that is quite generic and lacks an effective enforcement and monitoring mechanism there is little to prevent continued loss of forestland through its conversion to other land-uses without effective offsets being made.
35. There have been some important achievements made in the forest sector on gender and social inclusion in recent years e.g. the MoFSC Gender and Social Inclusion (GESI) Strategy (2009) and various revisions made to the forestry regulations to ensure enhanced participation by women in the executive committee positions of CFUGs. But in practice there are still many barriers to the genuine participation of IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor as beneficiaries, leaders and decision-makers in the sector. Capacity gaps, weak recognition of customary practices and domination of elites acting as gatekeepers reducing access by marginalised groups, are still real barriers to ensuring equitable benefit sharing. Government and civil society institutions still lack skills on participatory methods and approaches to address these issues. Enabling policies are frequently not followed through by actions and attitudes on the ground. As a result, gender and social exclusion-related issues remain prevalent.
36. Clarity of forest tenure is vital for REDD+ and forest tenure is a key issue for shaping the social and environmental impacts of all forest sector programs. This includes paying particular attention to the use-rights of IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor to access, practice customary management and use forests whilst ensuring their free prior and informed consent (FPIC) regarding their involvement in project activities. The Forest Act (1993) provides legal and institutional autonomy for these regimes but exercising tenure rights for forest management and utilisation is often challenging. Nowadays, community groups and IPs are advocating for more robustness, protection and assurance of their rights to use and manage forests and to benefit from the resulting goods and services especially in line with REDD+ safeguards.

## Section 4 Identification and Rationale for Projects and Programs to be Co-financed by FIP

### 4.1 Programme Rationale.

37. The investment portfolio, consisting of a subset of five projects, has the overall goal of ‘*Strengthened resilience of forest ecosystems for emissions reductions and increased environmental, social and economic benefit*’ at a time of major political transformation. This goal for the FIP-IP is taken directly from Nepal’s REDD+ strategy. Whilst policies and strategies now in place provide ample opportunities for REDD+ investments contributing to emissions reductions, these have to be considered against the backdrop of the changed functional roles and responsibilities of institutions in the forestry sector under the new federal governance system and the inevitable capacity gaps and challenges arising from making such fundamental changes especially during the upcoming period of transition. Transformative change, in the area of forest sector governance and capacity development for key stakeholder groups and institutions including IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor, lies at the heart of the investment plan. These are critical elements which will underpin the progress of REDD+ implementation and without them, the REDD+ strategy is unlikely to succeed.
38. The investment plan has been designed with five proposed projects summarised in *Table 6*. Projects 1-3 will make a major and direct contribution to Nepal’s emissions reductions and carbon capture as envisaged under the REDD+ strategy along with associated co-benefits and in compliance with Nepal’s NDC. Projects 4 and 5 represent innovative pilot projects, initially to be taken up on a more limited scale, that have real potential for future scaling-up to deliver further emissions reductions and co-benefits. All five investments will contribute to Nepal’s emission reductions targets and all will contribute directly to economic growth and green job creation. Each of these five investment projects is briefly described below. Further details of each are given in Annex 1. A map showing the proposed locations is given in Figure 3.

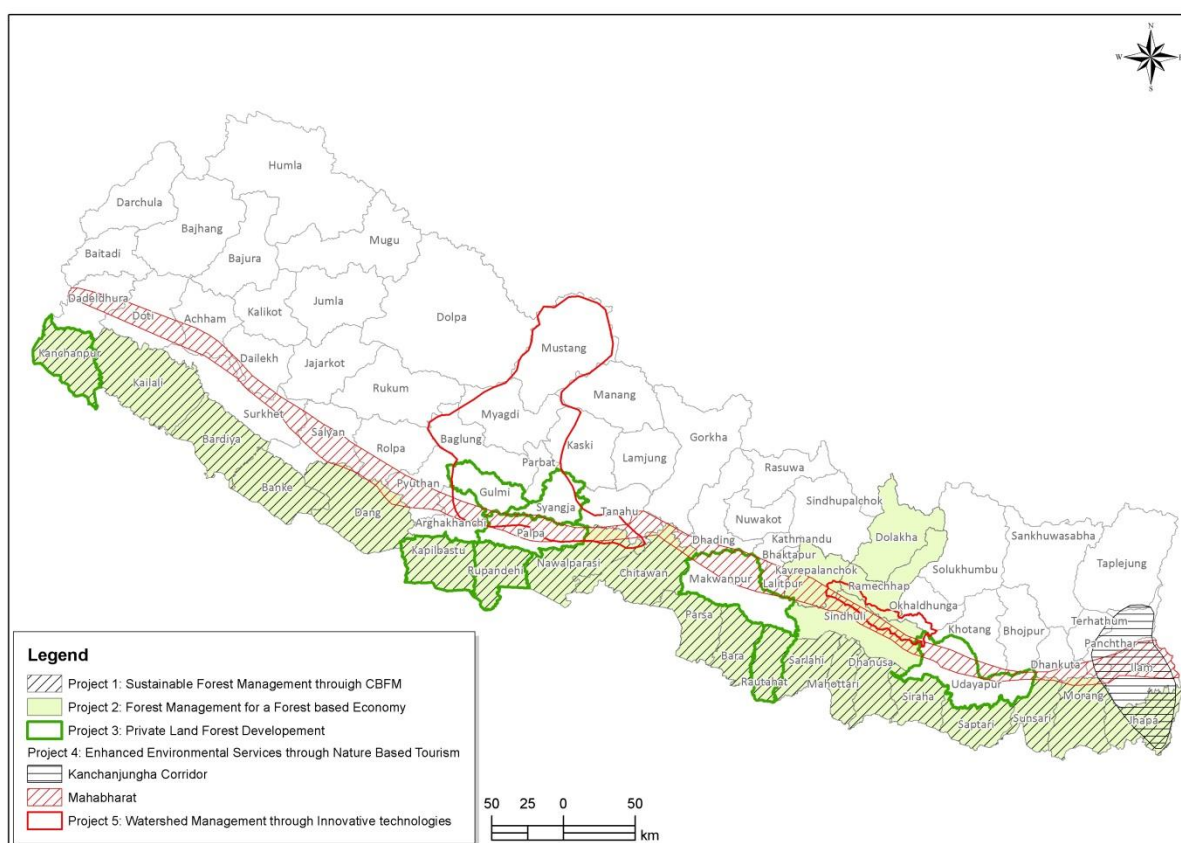
**Table 6: Summary of five proposed investments**

<b>Nepal Forest Investment Plan: “Investing in Forests for Prosperity at a Time of Political Transformation”</b>				
<b>Project 1</b>	<b>Project 2</b>	<b>Project 3</b>	<b>Project 4</b>	<b>Project 5</b>
Sustainable forest management through CBFM	Forest management for a forest-based economy	Private land forest development	Enhanced environmental services through nature-based tourism	Watershed management through innovative technologies
<b>Location:</b>				
All Terai districts including ERPD area (including Chure)	(a) Kavre, Dolakha & Sindhupalchowk, (extensive mature plantations) (b) selected accessible natural mature forest in Terai and Hills	Middle Hills and Terai	Selected municipalities (pilots) with domestic/regional tourism potential (not in PAs) in E. Nepal and Mahabharat	Lower Sun Koshi/Dudh Koshi and Upper Gandaki Watershed (both with extensive areas of degraded forest) and both upstream of hydropower and infrastructure development



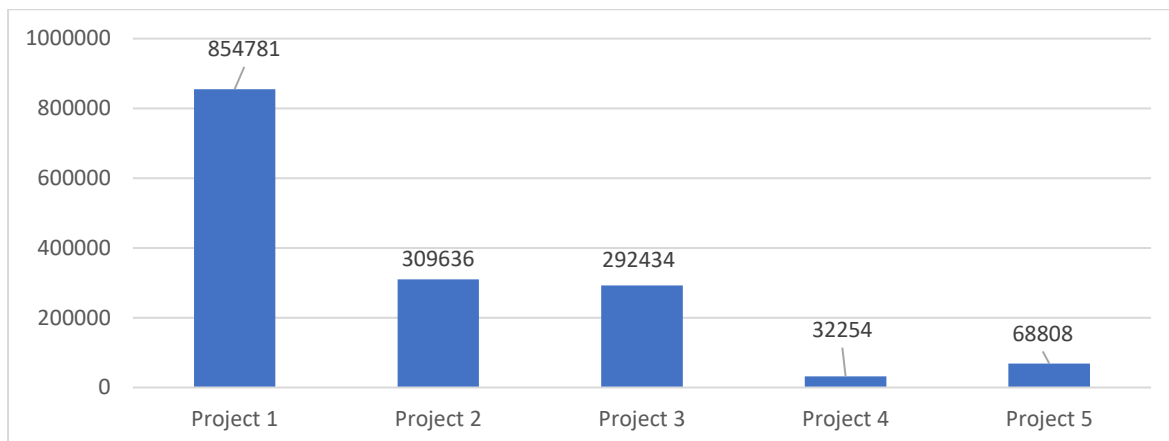
39. Figure 4, Figure 5 and Figure 6 show (i) the estimated emissions reduction of C-capture effects of the 5 proposed investment projects<sup>20</sup>; (ii) the amount of employment created from each project (person days) and (iii) the total number of households directly benefitting (through enhanced livelihoods, capacities, green jobs, environmental services etc) over 8 years. The FIP-IP specifically targets IPs and local communities including women, *Dalits*, *Madhesis* and forest dependent poor households, therefore a majority of beneficiary households will come from these categories (more from specifically targeted interventions especially under Project 1). The number of households indirectly affected will be larger than this. At this stage these are estimates and more detailed figures will be produced during project preparation.
40. The five proposed investment projects were presented, discussed and endorsed during the FIP-IP final consultation workshop held on 9<sup>th</sup> October 2017 in Kathmandu and during the Final Steering Committee meeting chaired by the Secretary, MoFSC on 11<sup>th</sup> October 2017.

**Figure 3: Locations of Proposed Projects**

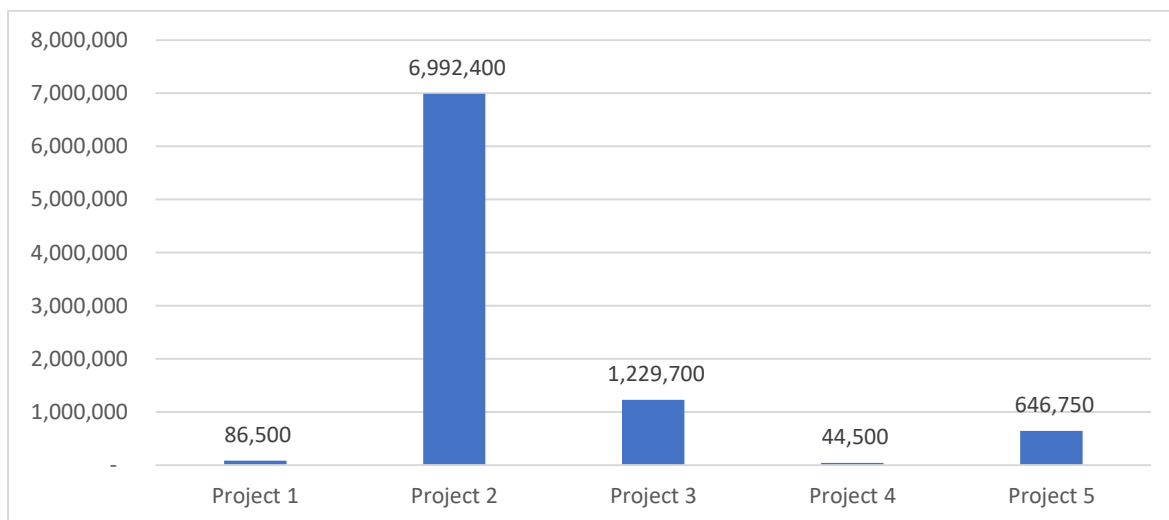


<sup>20</sup> Potential emissions reductions have been calculated using UNFCCC guidelines for each project

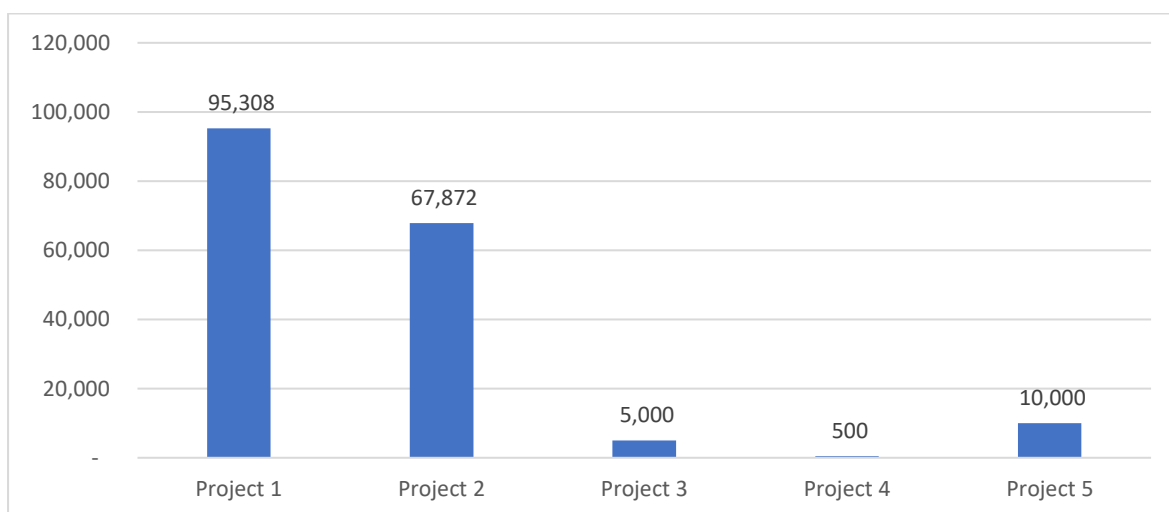
**Figure 4: Estimated CO<sub>2</sub> emission reductions/capture (tonnes CO<sub>2</sub>e) by proposed investment projects over 8 years**



**Figure 5: Estimated employment days generated by proposed investment projects over 8 years**



**Figure 6: Households directly benefiting from investment projects over 8 years**



41. The five investment projects have been designed to meet all the criteria described in the FIP Investment Criteria and Financing Modalities document<sup>21</sup>:
- a. Climate change mitigation potential
  - b. Demonstration potential at scale
  - c. Cost-effectiveness
  - d. Implementation potential
  - e. Integrating sustainable development (co-benefits)
  - f. Safeguards
42. The transformative outcomes that the overall investment portfolio will bring about are summarised in *Table 7* linking these outcomes to the criteria described above. Different projects will contribute to these outcomes in different ways and to different degrees and some outcomes will result from synergies between several projects. *Table 7* therefore represents the transformative outcomes of the whole investment programme. The transformative impacts of each of the individual investment projects are shown in *Table 8*.

**Table 7: FIP Investment Program: Transformative Outcomes**

<i>FIP Criteria</i>	<i>Transformative Outcomes of Proposed Investments</i>
Climate change mitigation potential	<ul style="list-style-type: none"> <li>• Reduced emissions from deforestation and forest degradation, especially in Terai and Chure, as a result of forest transfer to CBFM and implementation of SFM activities (as envisioned in Nepal's ERPD submission and FAO GCF concept)</li> <li>• Enhanced carbon capture from new plantations established on private land</li> <li>• Reduced fire and uncontrolled grazing in forests brought under SFM by CBFM groups in Middle Hills and Terai</li> <li>• Enhanced carbon capture from rehabilitated degraded forests (in a lower river basin pilot area)</li> <li>• Forest conservation and reduced forest loss through unplanned tourism infrastructure (in selected pilot municipalities)</li> </ul>
Demonstration potential at scale	<ul style="list-style-type: none"> <li>• Innovative soil and water conservation techniques combined with grass/bamboo/tree planting demonstrated for highly degraded forest areas</li> <li>• Local level planning and implementation for sustainable nature-based tourism (with pilot municipalities) demonstrated</li> <li>• Timber processing industries established that are linked to sustainable timber harvest from forests under CBFM</li> </ul>
Cost-effectiveness	<ul style="list-style-type: none"> <li>• Private sector investments by banks and finance institutions into small-medium sized timber industry increased</li> <li>• Reliance on timber imports reduced (import substitution)</li> <li>• Leasehold arrangements with individual landowners for private investment into plantations on private land being implemented</li> <li>• Potential for co-financing with other development partners e.g. IDA Tourism development; IDA Watershed Development; DFID Climate change adaptation</li> <li>• Expansion of SFM at landscape level</li> <li>• Improved technologies and enhanced efficiency of forest workers and increased resource pool of skilled workers for timber harvesting, processing, and soil and water conservation technologies</li> <li>• Use of fodder/livestock management to control over-grazing inside forests</li> </ul>
Implementation potential	<ul style="list-style-type: none"> <li>• Improved regulatory environment to facilitate timber harvesting, sales, utilisation and transport</li> </ul>

<sup>21</sup> CIF (June 2010) FIP: Investment Criteria and Financing Modalities

	<ul style="list-style-type: none"> <li>• State-wise policy and regulatory changes made that catalyse private investment in timber industry and support SFM by CBFM groups</li> <li>• National level fiscal policy and regulatory changes made that catalyse investment finance for forestry, reduce import duty and share investment risks</li> <li>• Increased and more effective participation, leadership, decision-making and benefit-sharing by IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor in CBFM groups</li> <li>• Enhanced capacities, awareness and behavioural change at the state level, local level (municipalities) and within communities and service providers on forest sector governance</li> <li>• Strengthened institutional arrangements at local level (municipalities) for forest sector implementation</li> </ul>
Co-benefits	<ul style="list-style-type: none"> <li>• Enhanced livelihoods and poverty reduction for IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor from more productive CBFM and soil and water conservation technologies and land allocation within CBFM areas and public land management</li> <li>• Increased climate change resilience for vulnerable household members of CBFM groups including IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor</li> <li>• More inclusive and better governed CBFM groups</li> <li>• Enhanced leadership and decision-making by CBFM groups especially by IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor</li> <li>• Increased employment opportunities in forest sector esp. from forest harvesting and utilisation and from nature-based tourism in selected locations with focus on IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor</li> <li>• Improved habitat for biodiversity enhancement and environmental conservation from forests under CBFM and from tourism related infrastructure development</li> </ul>
Safeguards	<ul style="list-style-type: none"> <li>• Consistency with and supportive of Nepal's Constitution</li> <li>• Consistency of investments with Nepal's international commitments (including SDGs, UN Declaration on the Rights of IPs, ILO 169, UNFCCC Paris Agreement and Warsaw Framework for REDD+)</li> <li>• Consistency with national forest policy, forestry sector strategy, REDD+ strategy, GESI strategy and others</li> <li>• Social and environmental safeguards to ensure that high conservation forests are protected and no natural forest is converted to plantation</li> </ul>

**Table 8: Main transformative effects of five proposed investment projects**

Project 1	Project 2	Project 3	Project 4	Project 5
Sustainable forest management through CBFM	Forest management for a forest-based economy	Private land forest development	Enhanced environmental services through nature-based tourism	Watershed management through innovative technologies
<ul style="list-style-type: none"> <li>• Build capacity for local level forest sector governance (municipalities and states)</li> <li>• Integrate forest management into local level climate adaptation</li> </ul>	<ul style="list-style-type: none"> <li>• Link forest management with forest based enterprises</li> <li>• Landscape level forest management via CBFM groups</li> <li>• Stimulate</li> </ul>	<ul style="list-style-type: none"> <li>• Scale up privately financed plantations on private land,</li> <li>• Link plantation establishment with livestock management</li> </ul>	<ul style="list-style-type: none"> <li>• Support selected municipalities in planning for tourism (domestic and regional) working with CBFM groups</li> <li>• Support locally self-</li> </ul>	<ul style="list-style-type: none"> <li>• Pilot innovative model that combines intensive inputs for forest development (plantations) with soil and water conservation and</li> </ul>

<p>planning</p> <ul style="list-style-type: none"> <li>• Make CBFM targeted for IPs, women, Dalits, Madhesis and poor households</li> </ul>	<p>private sector investment and private-community partnerships in forest based economy through regulatory and fiscal policy change</p>		<p>sustained production in tourism area</p>	<p>fodder/livestock development</p> <ul style="list-style-type: none"> <li>• Landscape level watershed restoration via CBFM groups</li> </ul>
---	---	--	---	---

43. Other potential investment areas were considered during earlier stages of the IP design process, but have been omitted from the final investment plan either because they did not meet the FIP criteria (shown in Table 7), because they did not directly contribute to Nepal’s REDD+ implementation or because there was no clearly definable and proven means of addressing the identified issue e.g. for tackling human-wildlife conflict or invasive species. Some of these investment ideas may represent viable investments to be considered for the future.
44. The five proposed investments contribute to all seven implementation areas of Nepal’s Forest Policy (Table 9) and to Nepal’s 14<sup>th</sup> Periodic Plan. Investment projects are geographically dispersed over the country - to ensure that benefits are widely shared, whilst at the same time ensuring that measurable impacts can be generated in specific locations. Each represents a coherent investment project with clearly definable outcomes relating to economic growth, job creation, REDD+, ensuring environmental and social co-benefits and supporting the transformational changes taking place under Nepal’s new constitution and restructuring process. The five investments are linked within a common programme structure for policy analysis, knowledge sharing, technical assistance, implementation, reporting and monitoring against the programme results framework described in Section 9.
45. Along with the 194 countries of the UN General Assembly in 2015, Nepal adopted the 2030 Development Agenda entitled ‘*Transforming our world: the 2030 Agenda for Sustainable Development*’ which identifies 17 sustainable development goals (SDGs). The five proposed investment projects under the FIP will make a direct contribution to 9 of these goals as shown in Figure 7 and will contribute indirectly to others.

**Figure 7: Nepal's FIP-IP Contributes Directly to 9 out of 17 SDGs**



1. *No Poverty*: All 5 projects focus on livelihoods benefits for identified poor households
2. *Gender equality*: All projects target capacity development, leadership and benefit sharing for women
3. *Decent work and economic growth*: All projects (especially Project 2) create new green jobs
4. *Reduced inequalities*: All projects emphasis involvement of IPs, women, *Dalits*, *Madhesis* and other disadvantaged groups
5. *Sustainable communities*: The project will be implemented through CBFM groups and involve strengthening group governance
6. *Climate action*: All projects contribute to emission reductions and climate adaptation (especially Projects 1 and 5)
7. *Life on land*: All projects contribute to biodiversity through forest conservation
8. *Peace, justice and strong institutions*: All projects contribute to peace building and support for Nepal's new institutional structures
9. *Partnership for the goals*: All projects draw support and contributions from government, communities; the private sector and have potential co-funders

**Table 9: Linkages between Nepal's Forest Policy 2015 and 5 proposed FIP investments**

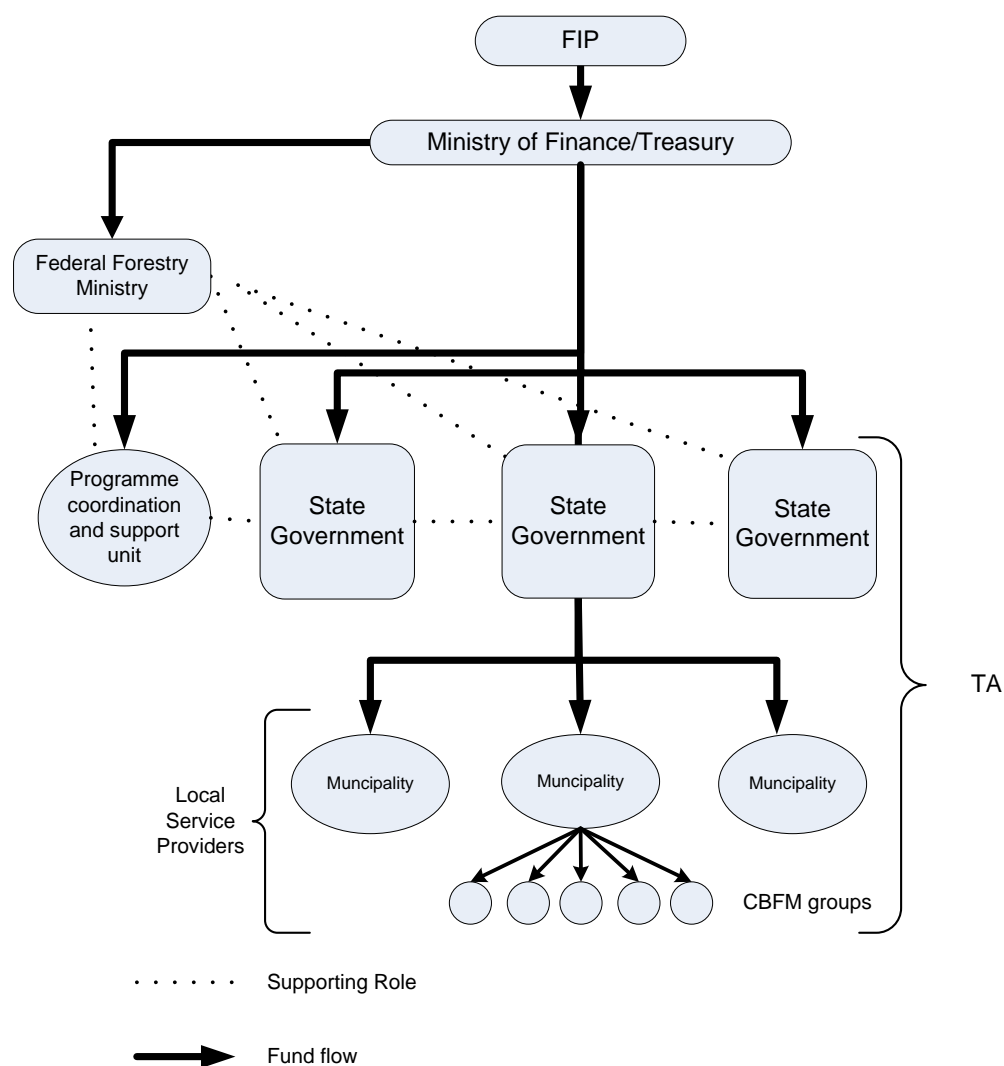
	<b>Project 1</b>	<b>Project 2</b>	<b>Project 3</b>	<b>Project 4</b>	<b>Project 5</b>
<b>Forest Policy (2015) Implementation area</b>	<b>Sustainable forest management through CBFM</b>	<b>Forest management for a forest-based economy</b>	<b>Private land forest development</b>	<b>Enhanced environmental services through nature-based tourism</b>	<b>Watershed management through innovative technologies</b>
1. Increase productivity of forestry sector and production of forest products through SFM	Improved forest conservation and SFM	SFM, timber utilisation and production from plantations and natural forests	Improved productivity of private land (plantations) for timber		
2. Increase benefits from environmental services including biodiversity and resource conservation and ensure their justifiable and equitable distribution.				Enhanced forest conservation in tourism areas for local benefits and environmental services	Reduced degradation, sedimentation & enhanced watershed productivity
3. Integrated conservation and management of watershed areas to increase land productivity through water and land conservation.					Reduced degradation and enhanced watershed productivity
4. Make community-managed forests including CF, LHF, CFM buffer zone community, protection & religious forests environmentally, economically and socially capable with justifiable and equitable benefit sharing	Enhanced livelihoods and equitable benefit sharing for IPs and local communities including women, <i>Dalits</i> , <i>Madhesis</i> and other forest dependent poor				Improved livelihoods and equitable benefit sharing for IPs and local communities including women, <i>Dalits</i> , <i>Madhesis</i> and other forest dependent poor
5. Create green employment and value addition by involving private sector in forest development and expansion through forest enterprise promotion, product diversification, and marketing.		Local job/income opportunities in utilisation and timber processing	Local job/income opportunities from fast-growing plantations	Local job/income opportunities from tourism services/homestays	
6. Implement the mitigation and adaptation approaches for the negative impacts of climate change.	Enhanced CC resilience (people & forest)				Enhanced CC resilience (people & forest)
7. Additionally capacitate the management for good governance, inclusion and social justice promotion in forestry sector.	Enhanced capacity, leadership and IPs and local communities including women, <i>Dalits</i> , <i>Madhesis</i> and other forest dependent poor				Enhanced capacity, leadership and skills for IPs and local communities including women, <i>Dalits</i> , <i>Madhesis</i> and other forest dependent poor

#### **4.2 Programme Management, Coordination and Governance.**

46. Coordinated FIP-IP programme management for implementation of the 5 proposed investment projects is essential to ensure consistency of reporting and monitoring against the identified investment plan results (Section 9) and also to ensure that lessons learnt from all projects are reincorporated into policy and practice and shared with relevant stakeholders.
47. Given the geographically dispersed nature of the 5 projects in different regions of Nepal it is likely that each project will require different implementation arrangements involving government (at the three levels of municipality, state and federal), non-government organisations and the private sector. All projects will deliver activities through established CBFM groups at grass roots level. Learning, sharing and coordinating across this diverse delivery mechanism will be ensured by having a central Programme Management and Coordination Unit funded through the investment plan.
48. Key functions of the Programme Management and Coordination Unit will include policy analysis, knowledge sharing, technical assistance, implementation support, monitoring and reporting. The Programme Management and coordination Unit will also support cross-project initiatives such as e.g. skills development on participatory methods and approaches, integrating gender and social inclusion within organisations and programmes, leadership and other skills development in government, civil society and private sector institutions.
49. The Programme Management and Coordination Unit will also ensure synergies across all investments and inter-agency collaboration wherever possible. Figure 8 shows the indicative programme implementation structure that will be further developed during project preparation. For each investment project, details of the implementation and funding modality will be developed during detailed project preparation.



Figure 8: FIP-IP Indicative Implementation Structure



50. Learning from the experiences of recent development partner-funded programmes in Nepal’s forestry sector, importance is attached to establishing multi-stakeholder governance arrangements which have proved to be successful in ensuring commitment of different stakeholder groups to programme implementation and to enhancing accountability and transparency of programme management. The FIP-IP will establish a Programme Steering Committee with both government and civil society representatives including from the private sector. Similarly, based on the experiences with REDD+, the FIP-IP proposed governance structure will incorporate a stakeholder forum that will ensure wider accountability and programme awareness.

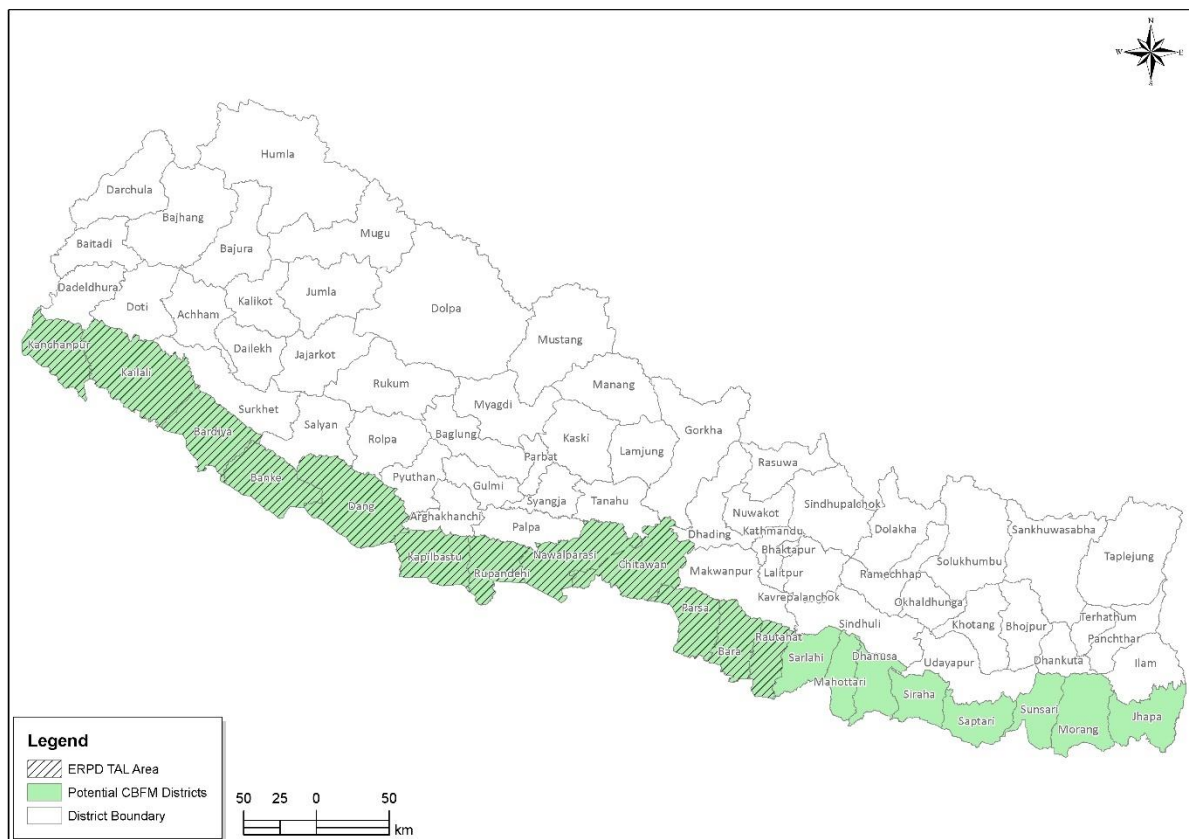
### 4.3 Proposed Investments

#### Investment Project 1: Sustainable Forest Management Through CBFM

51. The project will invest in forest management by CBFM groups in the Terai and Chure Regions. It will provide co-finance for interventions 1 & 2 under Nepal’s ERPDP and will cover the 12 proposed ERPDP TAL districts plus the remainder of the Terai and adjacent Chure districts (Figure 9). Handover of forest and its management by CBFM groups will reduce deforestation and forest degradation where land-use change related emissions are highest in Nepal. Project sub-components include:

- i. Handover of remaining forest areas to CBFM groups (various types)
  - ii. Supporting CBFM for new and existing groups including operational plan/management plan and constitution preparation and revision and implementation
  - iii. Land allocation inside CBFM areas for poor and *Dalit* households with emphasis on fodder production
  - iv. Supporting CBFM group governance especially for enhancing participation, leadership, decision-making and benefit sharing by IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor.
  - v. Supporting local climate change adaptation planning and implementation of activities through CBFM groups for enhancing climate resilience of IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor households
  - vi. Pro-poor public land management working closely with local municipalities
  - vii. Capacity development, coaching and awareness raising for CBFM groups and member households and for local municipalities to enhance collaborative leadership, coordination and fund management.
52. The transformative effect of this project will be to strengthen local level governance in the forestry sector at a critical time as the country makes its transition to new governance arrangements under the constitution. In addition, it will catalyse a shift in CBFM making it more proactive in strengthening participation, leadership, equity, decision-making and benefit-sharing by IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor.

**Figure 9: Areas proposed for Project 1**



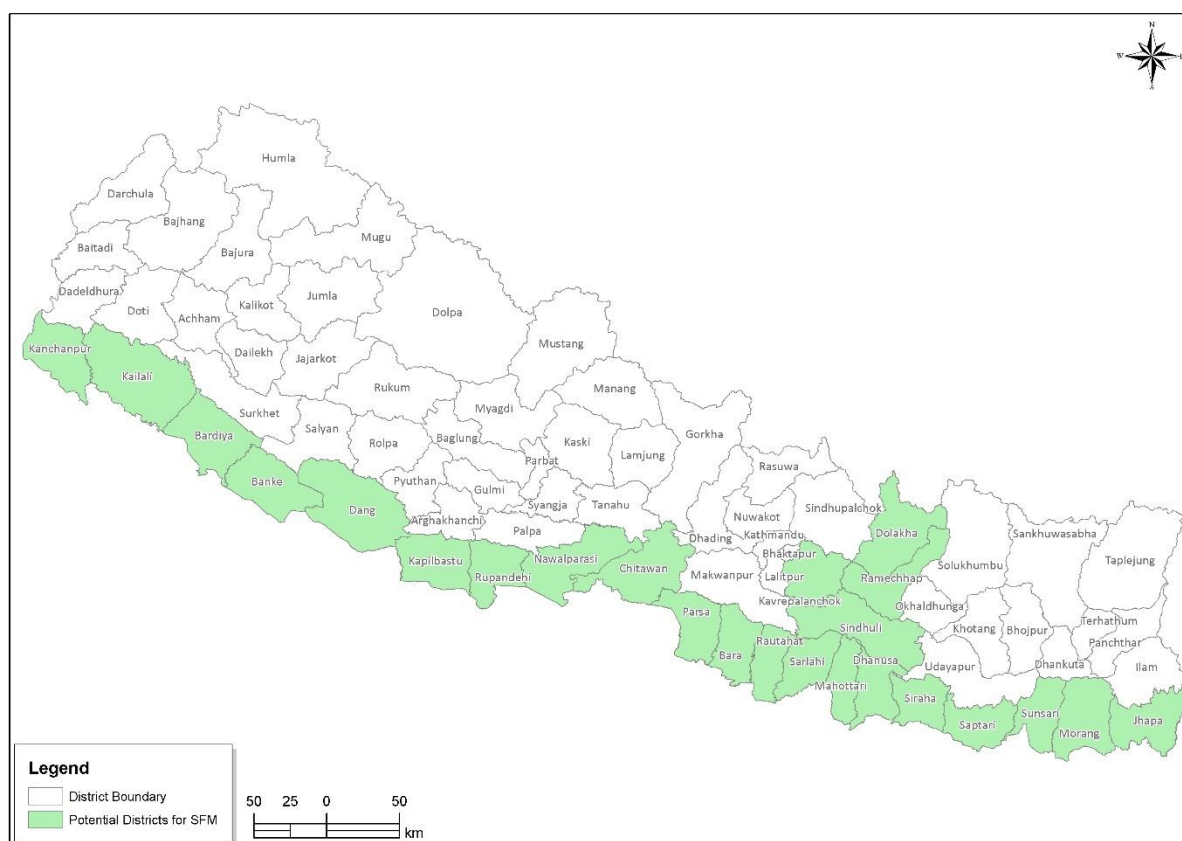
53. The project builds on more than 30 years of CBFM in Nepal – an experience which has been largely successful in terms of improving forest resources and contributing to local economy, but less so in terms of ensuring equity and participation by disadvantaged groups. It will scale up pilot initiatives which have proved to be successful in bringing greater benefits for poorer households such as land allocation inside CBFM areas, leasehold forest management (LHF) and public land management – all of which are strongly pro-poor targeted. It will also build on the proven capacity of CBFM groups to deliver climate change adaptation actions – again with targeting for the most vulnerable households.
54. Investments in the project will cover approximately 161,000 ha of forest otherwise subject to deforestation or degradation resulting in a total emissions reduction of about 0.85 million t CO<sub>2</sub> e over the 8-year project period. The project covers about 586,000 households of which project activities will be targeted at IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor households, including about 9,000 households benefiting from public land management.
55. Results indicators for Project 1:
- 161,000 ha of forest under CBFM in project areas with new updated/revised Operational Plans/Management Plans and Constitutions being implemented
  - 900 ha of public land brought under management for agroforestry
  - 150,000 identified poor and *Dalit* households benefiting from pro-poor targeted activities such as land allocation (inside CBFM areas), LHF management, public land management and climate change adaptation
  - At least 50% of staff hired by service providers in technical and social areas are women
  - All CBFM regimes adopting the representational provisions of CF Guidelines (2009) i.e. Number of IPs, women, *Dalits*, *Madhesis* and other forest dependent poor proportionately represented and active on executive committees of CBFM groups of all kinds covered by the project

**Investment Project 2: Forest Management for Forest-Based Economy.**

56. The project will link selected CBFM groups with productive forests or plantations with private entrepreneurs to plan and implement sustainable timber harvesting and to establish small-medium scale timber utilisation industries locally. It will cover two areas in Nepal: (i) selected Middle Hills districts with extensive, mature plantations e.g. Dolakha, Sindhupalchowk and Kavrepalanchok and (ii) CBFM groups with productive, mature, natural forest in the Terai and in the middle-hills (Figure 10). Stimulating productive forest utilisation for timber will create local green jobs and cash incomes and will ensure more sustainable forest management and conservation (including protection from fire) as it will generate local resources that can be used for protection purposes. Project sub-components will include:
- i. Preparing and implementing timber harvesting/utilisation plans for selected CBFM groups at a landscape level
  - ii. Supporting CBFM groups and individual entrepreneurs to obtain equipment for timber harvesting, transport to roadside, safety etc. and for training in its use
  - iii. Supporting the establishment of community-private partnerships between entrepreneurs and CBFM groups for agreements on sale/purchase of timber and

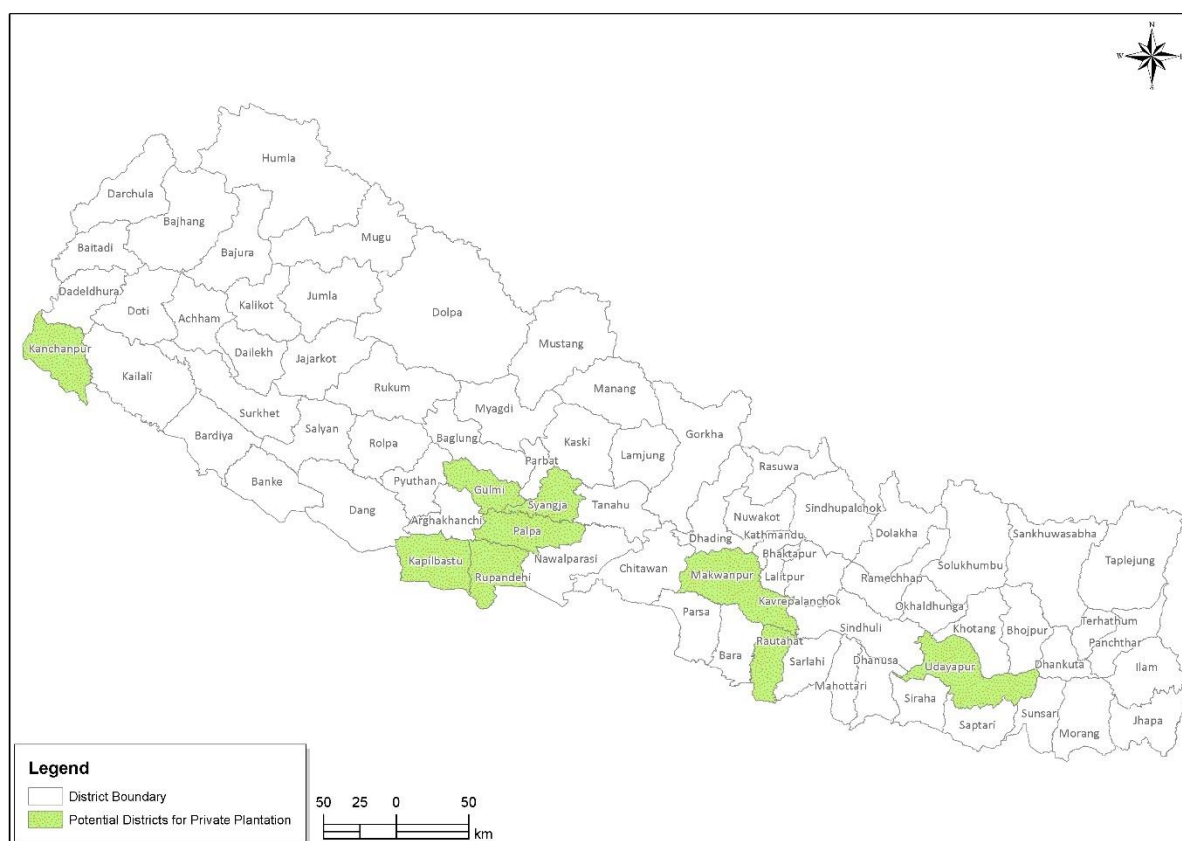
- investment into small-medium timber enterprises for sawmilling, wood peeling, timber treatment, seasoning and others
  - iv. Negotiating and supporting the deregulation of timber harvesting, sales, transport and utilisation with selected state governments and municipalities in project areas
  - v. Changes to Nepal Rastra Bank policies to recognize forestry as a productive sector and make mandatory policy provisions for banks and financial institutions to spend at least 2-3% of their total loan portfolio in forestry
  - vi. Working with banks and financial institutions to re-formulate their policies and procedures to make provision for concessional loans (piloting subsidised interest rate) for larger commercial forest industries
  - vii. Capacity and skills development and market linkage services for micro/small forest-based enterprises in rural communities
  - viii. Supporting subsidised insurance premiums and import duties for new timber-based forest enterprises
  - ix. Skills development and access to finance for IPs, women, *Dalits*, *Madhesis* and other forest dependent poor to gain employment in timber-based forest enterprises
57. The main transformative effect of this project will be to link productive forest management with timber-based forest industries and stimulate private sector investment and private-community partnerships in forest-based economy, capitalising on the productive potential of forests under CBFM. Planning for timber harvesting and utilisation at a landscape level will link several CBFM groups and their forest areas with timber-using industry. This will stimulate the rural economy in forested areas and create jobs and incomes – with specific focus for IPs, women, *Dalits*, *Madhesis* and other forest dependent poor (for whom skills development will be provided). Additional jobs will also be created in down-stream timber-based enterprises such as furniture manufacturing and construction. Deregulation and increasing the opportunities for legality in timber sales, production and transport and utilisation will enhance forest sector governance, transparency and local accountability.
58. The project builds on experiences from areas where timber harvesting using silviculture and forest management practices have been applied for timber harvesting, although none of these has yet been linked with private sector capital for investment into forest based industry. The enhanced growing stock of forests after several decades of CBFM has not yet been transformed into forest industry that creates local jobs especially in rural areas with extensive and potentially productive forests.

Figure 10: Areas proposed for Project 2



59. The project will bring 72,000 ha of forest under sustainable and productive management for timber supporting approximately 14 new small-medium sized timber utilisation industries located close to the target forest areas. It will create approximately 7 million person-days of employment in timber harvesting and processing over the 8 years period and will generate about 0.3 million tonnes CO<sub>2</sub> e emissions reduction over the 8-year project period.
60. Results indicators for Project 2:
- 72,000 ha of forest (under CBFM) covered by approved sustainable timber harvesting/utilisation plans
  - 4 million m<sup>3</sup> of timber harvested sustainably from forest areas with harvesting/utilisation plans (in project area) over 8 years.
  - 14 new timber-based forest industries established and operational in the project areas
  - At least 10 regulations concerned with timber harvest, sale, transport and utilisation revised in favour of the establishment of timber-based industry (in at least 2 states)
  - 50% of new jobs created in timber harvesting and timber-based industry for local IPs, women, *Dalits*, *Madhesis* and other disadvantaged poor.

Figure 11: Proposed areas for Project 3



### Investment Project 3: Private Land Forest Development.

61. The project will support establishment of plantations of fast-growing tree species on underutilised or abandoned private agricultural land in both the Hills and Terai, targeting districts where such land is most extensive and often degraded (Figure 11). Only non-invasive tree species will be promoted and no plantations will take place on forest land. Farmers will be encouraged to establish mixed species plantations to avoid risks associated with monoculture. During the project design stage, detailed feasibility studies will be undertaken prior to selecting actual districts, but it is expected that this will include both the Middle Hills and Terai in areas with high migration. Establishing productive forest plantations on land that is only marginally productive for agriculture in rural areas where there are labour shortages will ensure productive use of the land, contribute to local jobs and incomes and forest sector contribution to economic growth and will add to Nepal's carbon capture and its NDC. Project sub-components will include:

- i. Identifying, establishing and supporting landowner/farmer 'groups' for establishing blocks of fast-growing plantations on under-utilised agricultural land and registering the land as private plantations (focusing on women's groups wherever possible)
- ii. Linking farmer groups with private investors through medium-term lease and buy-back agreements to attract capital to establish plantations
- iii. Subsidising plantation costs through performance-based payments for establishment and maintenance and insurance premium subsidies with additional incentives for particularly climate vulnerable areas e.g. along flood-prone river margins in the Terai

- iv. Linking plantation establishment with fodder and stall-feeding investments to reduce grazing damage
  - v. Supporting women's groups for certification under recognised PES schemes e.g. W+ (on a pilot basis)<sup>22</sup>
  - vi. Supporting private nursery production including capacity development on new technologies, development of seedling standards, quality assurance and technical assistance and buy-back arrangements
  - vii. Capacity development for nursery and plantation technologies especially for IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent ppoor.
62. The transformative effect of the project will scale up privately financed plantations on private land. It will also link livestock management with fodder production and stall feeding for forest protection. This will contribute to income earning opportunities in rural areas – especially for women who often remain after men have migrated and it reduces time poverty for rural women who would otherwise need to invest their labour in relatively unproductive subsistence agriculture on marginal lands. Opportunities for small-holder PES certification will be supported on a pilot basis – especially for women's groups to give additional revenue earning opportunities e.g. through W+ resulting in changes to women's lives and livelihoods. In the longer term the project will reduce timber imports and increase Nepal's self-sufficiency in processed timber products.
63. The project will be based on analysis during project preparation that suitable areas of underutilised land are available and that owners (sometimes absentee owners) are willing to establish fast growing trees whilst at the same time there is a huge demand for softwood to support the furniture and wood product manufacturing industry and that private sector capital is available to invest in such plantations.
64. The project will establish 10,000 ha of fast growing tree plantations on unutilised private agricultural land benefitting about 5,000 small landowners and will capture about 0.3 million tonnes CO<sub>2</sub> e over the 8-year project period.
65. Results indicators for Project 3:
- 10,000 ha of fast growing plantation established in private land
  - 5,000 landowners involved in establishing plantations
  - Mean annual increment of 15 m<sup>3</sup>/ha for established plantations
  - About 20% of plantation groups certified under W+
  - An additional 2,500 private forests registered of which 25% are in women's names.

#### **Investment Project 4: Enhanced Environmental Services Through Nature-Based Tourism.**

66. The project will work closely with identified municipalities and CBFM groups in potential tourist 'hot-spots' planning and developing sustainable nature-based tourism

---

<sup>22</sup> The W+ Standard is a certification label that endorses projects that create increased social and economic benefits for women. It is an innovative framework to quantify and monetize the social capital created by women, to recognize and reward their contributions to sustainable environments and communities ([www.wplus.org](http://www.wplus.org))





67. The transformative effect of this project will be to pilot processes for supporting selected tourism destinations for mainly domestic and Indian tourists working with municipalities and CBFM groups to maximise local benefits, especially for women. This will conserve natural features, especially forests, from unplanned infrastructure development and will enable CBFM groups and their household members to generate new sources of revenue from tourism in a way that is replicable and has potential for scaling up in new areas. Homestays have been a recent and largely successful new development for Nepal's tourism industry that can bring incomes directly to rural households and villages. This approach will also stimulate local food production to supply tourist needs and will retain revenues in the local area.
68. The project will tackle the 'unplanned infrastructure development' driver of deforestation and forest degradation where this is due to unplanned expansion of tourist facilities in accessible forested areas e.g. road-heads and scenic locations. Information about changing patterns of tourism with an increasing share of tourists consisting of middle-class Nepali and Indian tourists confirms the potential for local CBFM groups to benefit more from such tourism – working closely with municipalities to ensure maximum local benefits whilst safeguarding environmental conservation.
69. The project will benefit about 500 households directly through support for homestay establishment and will create about 44,000 person-days of local employment/jobs in the tourism sector in 10 selected locations over 8 years. The project will help conserve about 5,000 ha of forest from unplanned infrastructure development associated with tourism and will create an additional 100 ha of agroforest giving an estimated 0.03 million tonnes CO<sub>2</sub> e of emissions reductions over the 8-year project period.
70. Results indicators for Project 4:
  - 10 municipalities with locally developed area-based tourism plans in place
  - % of CBFM group households benefitting from new diverse, nature-based tourism products in selected municipalities.

#### **Investment Project 5: Watershed management through innovative technologies**

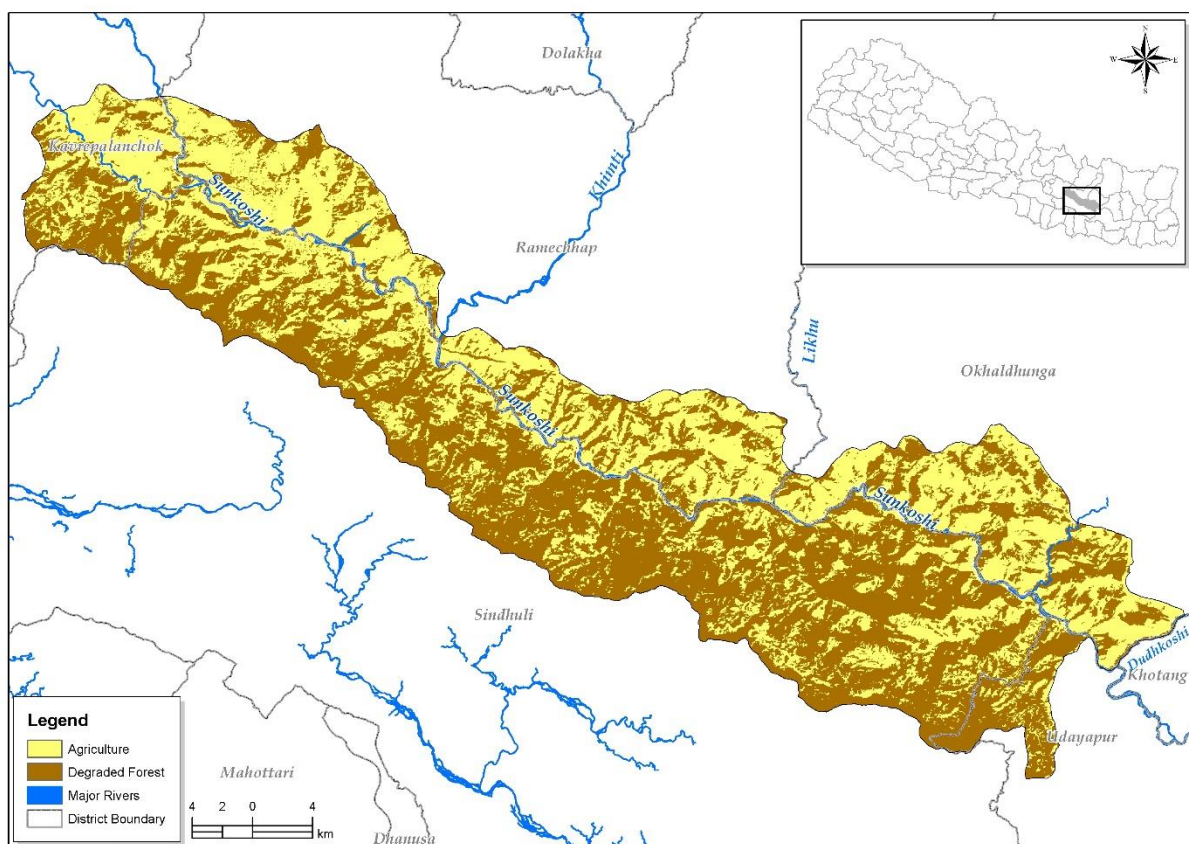
71. The project will rehabilitate degraded dryland forest in selected lower river valley locations through intensive and innovative soil and water conservation and bioengineering treatments combined with plantation establishment and fodder development with all activities being carried out through CBFM groups. This will contribute to the environmental sustainability of proposed large-scale infrastructure investments where maintaining watersheds is critical to the investment. Potential locations for this pilot include the lower Sun Koshi/Dudh Koshi which lies upstream of proposed infrastructure developments in the river basin (Figure 13) and the upper watershed above the Kali Gandaki Dam where key, critical locations for watershed improvement investments have already been identified<sup>23</sup>. After some years of implementation there is scope for scaling-up this pilot using other sources of finance such as IDA/WB. Long-term benefits for CBFM groups in these areas (especially for disadvantaged *Majhj* communities) are more productive forest resources, improved environmental services and livelihoods opportunities e.g. from fodder/livestock and enhanced climate resilience. The project also has carbon sequestration benefits. Project sub-components will include:

---

<sup>23</sup> Kali Gandaki Hydropower Plan Rehabilitation Project Catchment Management for Sediment Retention Technical Report, February 2017

- i. Rehabilitating degraded forest under CBFM by a combination of plantation and intensive soil and water conservation technologies incorporating traditional plantation technologies linked to CC adaptation e.g. for water infiltration, runoff control and bioengineering using grasses, shrubs and bamboo
- ii. Supporting activities through CBFM groups using performance-based payments system
- iii. Supporting LHF groups and others with grass planting and livestock development with especially focus on targeted poor households
- iv. Capacity development for CBFM group members and government staff in appropriate soil and water conservation technologies
- v. Promoting seedling production (trees, grasses and bamboo) and supply through supporting locally established private nurseries
- vi. Fire management activities

**Figure 13: Proposed location for Project 5**



72. The transformative effect of the project will be to pilot a model that combines intensive coordinated inputs for forest development (plantations), soil and water conservation and fodder/livestock development over extensive areas managed by CBFM groups in dryland that otherwise will remain unproductive and generate few benefits for group members. Traditional technologies will be combined with best practice in soil and water conservation to create maximum environmental and climate adaptation impact including reduction of downstream impacts. This is a model that has been extensively applied to dryland areas in India e.g. Haryana and Maharashtra where the focus is on wide-scale treatment to retain water *in situ* and reduce runoff – combined with revegetation through planting. The successful treatment model will be extendable to other similar dryland areas in Nepal (lower large river valleys).

73. Dry and degraded forest areas require intensive investment to make them more productive and to safeguard their important environmental services such as soil and water conservation. CBFM groups have limited resources to do this, and conventional ‘treatments’ such as tree planting alone are rarely effective without additional investments to reduce runoff and enhance water infiltration.
74. The project will cover about 10,000 ha of degraded forest in 2 locations resulting in a total of 69,000 tonnes CO<sub>2</sub>e captured over the 8-year project period and will benefit approximately 20,000 households through employment and enhanced environmental services.
75. Results indicators for this project:
- 10,000 ha of degraded forest treated with extensive soil and water conservation combined with grass/tree/bamboo planting
  - 20,000 households (including at least 500 identified poor households) benefitting from treated areas through enhanced climate resilience, livelihoods enhancement, water source development, incomes and improved environmental services.
  - Reduced downstream sedimentation in two major river systems

## Section 5 Collaboration with Development Partners

76. Though previously significant, development partner engagement in forestry in Nepal has declined over the past 5 years as assistance has shifted to support disaster risk reduction and recovery activities and climate change adaptation. In 2015, the total commitments from the top 7 development partners to ongoing forestry and environmental projects was USD 148.1 million but little of this was specifically targeted at forestry and most was for climate change adaptation. Remaining forest-related efforts by development partners are small and un-coordinated, calling for a revitalized approach to addressing the sector challenges realising its undoubted economic potential, and supporting government commitment to modernize its forest institutions and management practices. *Table 10* identifies potential development partner engagement in the forestry sector and possible collaborative linkages with the projects proposed for FIP-IP. At this stage all of these are considered as tentative as some of the key possibilities are still in an early stage of development.
77. One of the most well-known and influential donor-supported forest programs in recent years in Nepal was the Multi-Stakeholder Forest Programme (MSFP) supported by DFID, the Government of Finland and Swiss Development Cooperation which ended in 2016. Although this programme built on more than 2 decades of working in Nepal's forestry sector, it was terminated prematurely because of structural and institutional challenges. The main challenges included: the program focused more on targets than quality of delivery; it had a too short timeframe for implementation; it followed a blanket approach to private sector engagement; it experienced chronic shortage of skilled service providers; weak NGO capacity; there was a lack of inter-agency communication and collaboration; and lack of adequate and appropriate human resources for effective programme management. In addition, the MSFP struggled with a large budget but small workforce; and insufficient fiduciary and analytical oversight and supervision. These have contributed valuable lessons for FIP-IP design.
78. MSFP also generated many positive lessons which have been incorporated into the FIP-IP such as the effectiveness of a multi-stakeholder approach for increasing program ownership; the importance of designing and implementing program activities through local institutions such as CBFM groups as an effective way of improving the livelihoods of beneficiaries; the importance of offering customised livelihood options matched with the specific needs and interests of households (sometimes referred to as pro-poor targeting) and that SFM has significant potential to contribute to the local economy, and is a good option to improve both the quality and productivity of diminishing over-mature forests. Importantly, evaluation of MSFP also stressed the need for mutual collaboration between government bodies, local communities, and other relevant stakeholders for effective implementation – further support for the multi-stakeholder approach.
79. During preparation of FIP-IP discussions took place with potential collaborators and co-funders including with FAO, World Bank Group, UN-REDD, DFID, GIZ and SDC as well as representatives of the ongoing USAID-funded *Hariyo Ban* programme. Many of these organisations were represented at national level workshops held in Kathmandu.
80. A number of the activities proposed for FIP-IP have been developed from successful experiences with earlier projects. These earlier experiences generated some important lessons and investment ideas that have been incorporated into FIP-IP as a means of scaling them up to have significant impact. These are shown in *Table 11* including the source of the earlier experience that will be up-scaled.

**Table 10: Potential FIP-IP collaborators**

Potential source of collaboration/finance	Potential investment areas	Potential linkages with proposed FIP-IP investment projects
GCF proposal being developed (by GoN/FAO) 'Building a resilient Churia Region in Nepal'	SFM, soil and water conservation through CBFM groups in Terai and Chure Areas	Projects 1 & 2 on strengthening CBFM and supporting SFM in Terai and Chure
GCF proposal being developed (by GoN/IUCN/NTNC) 'Enhancing Climate Resilience of Vulnerable Communities and Ecosystems in the Gandaki River Basin'	Watershed management, adaptation activities for vulnerable groups in Gandaki River basin	Project 5 on rehabilitation of watershed in lower Koshi River valley and Upper Kali Gandaki watershed
LDCF proposal being developed by UNDP	Watershed management	Take lessons from pilot Project 5 on rehabilitation of watershed in lower Koshi River valley and Upper Kali Gandaki watershed
GEF proposal being developed through WWF	Conservation in TAL including strengthening 'wildlife corridors'	Projects 1 & 2 on strengthening CBFM and supporting SFM in Terai and Chure
DFID Nepal climate change support programme (new phase likely)	Support for local CC adaptation actions through community groups	Project 1 on CC adaptation through CBFM groups & pilot Project 5 rehabilitation of watershed in lower Koshi River valley
WB Country Partnership framework (in development)	Infrastructure, forestry, federalisation, climate change, disaster	Potential links with all Projects, especially Projects 1 and 5
WBG tourism development programme (IDA)	Uncertain at this stage	Project 4 on nature-based tourism in pilot municipalities
WB Kali Gandaki Hydropower Project	Watershed management	Project 5 on rehabilitation of watershed in lower Koshi River valley and Upper Kali Gandaki watershed
CSIRO Kamala River Basin	Watershed management	Project 1 and take lessons from pilot Project 5 on rehabilitation of watershed in lower Koshi River valley

**Table 11: FIP-IP investments derived from earlier successful pilots**

Project/funding agency	Activity	FIP-IP proposed investment project
BISEP-ST/LFP/MSFP public land management (SNV, DFID, SDC, Govt. of Finland)	Establishment of (mainly) women's groups for agroforestry activities on public-land (non-forest land) in Southern Terai	Included in FIP-IP Project 1
GIZ/LFP/MSFP land allocation inside CBFM areas (DFID, SDC, Govt. of Finland)	Allocation of land inside CBFM areas for identified poor households for fodder production with livestock support	Included in FIP-IP Project 1

LFP/MSFP local level CC adaptation planning	Local CC adaptation planning and implementation through CBFM groups	Included in FIP-IP Project 1
Leasehold forestry programme (FAO, IFAD)	Handover of forest areas to groups of poor households with subsequent support from Dept. of Livestock on fodder and staff feeding	Included in FIP-IP Project 1
Project on enhancing rural livelihoods in underutilised/abandoned agricultural land through (FAO)	Pilot/research on using abandoned private land in middle hills	Adapted for FIP-IP Project 3 (focus on tree plantations)
ENLIFT	Pilot/research and demonstration sites that show enhanced silviculture and links with enhanced forest productivity	Ideas developed for FIP-IP Project 2
TAL Programme (WWF)	Landscape level approach	Linking CBFM areas for SFM

## **Section 6 Expected Co-Benefits from FIP Investment**

81. The Investment Plan comprising of five investment projects will generate significant co-benefits in terms of improvement of local livelihoods, poverty alleviation, forest sector governance, capacity development of forestry institutions of different types and biodiversity and environmental conservation and enhancement. *Table 12* describes these co-benefits. During the preparation of individual projects baseline data will be gathered that can be used to give a more quantitative indication of co-benefits that will be generated by each of the investments.
82. Figure 6 shows the estimated number of households that will directly benefit from each of the 5 projects in terms of enhanced livelihoods, income opportunities and jobs. Of the total of about 180,000 direct beneficiary households, these will be mostly IPs, women-headed, *Dalits*, *Madhesis* and other disadvantaged groups due to the targeted nature of the project activities. A larger number of households will benefit indirectly from enhanced environmental services.
83. Similarly, Figure 5 shows the benefits of each of the 5 projects in terms of direct employment. Especially for Project 2, there will be additional employment created in downstream forest product manufacture and associated services. This project will significantly increase employment in the forest sector in rural areas with emphasis on creating jobs for IPs, women, *Dalits*, *Madhesis* and other forest dependent households.

Table 12: FIP-IP Co-benefits and outcomes

Project	Livelihoods and poverty	Biodiversity and other environmental services	Economic development	Forest sector governance
1. Sustainable forest management through CBFM	<ul style="list-style-type: none"> <li>Enhanced livelihoods opportunities for IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor from targeted activities e.g. leasehold forestry, land allocation inside forest areas, public land management</li> <li>Enhanced climate change resilience of vulnerable households</li> </ul>	<ul style="list-style-type: none"> <li>Degraded forest restored leading to biodiversity enhancement benefits</li> <li>Forest-based environmental services improved e.g. soil conservation, water source conservation, flood control etc. especially in Chure</li> </ul>	<ul style="list-style-type: none"> <li>Income opportunities for IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor due to targeted interventions e.g. leasehold forestry, land allocation inside forest areas, public land management</li> </ul>	<ul style="list-style-type: none"> <li>Enhanced capacities of local (municipality) and state forestry institutions</li> <li>Enhanced capacities of CBFM institutions</li> <li>Improved and more locally appropriate policies, laws and regulations at state level</li> <li>Inclusive governance and diverse institutions from IP, women &amp; <i>Dalits</i> perspectives</li> </ul>
2. Forest management for a forest-based economy	<ul style="list-style-type: none"> <li>Income and job opportunities for CBFM group member h/h from timber harvesting and utilisation focus on IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor</li> </ul>	<ul style="list-style-type: none"> <li>Forest-based ecosystem services including biodiversity improved as a result of fire control in managed forests</li> </ul>	<ul style="list-style-type: none"> <li>Reduced levels of timber imports and increased local supplies</li> <li>Increased private capital investment in forestry sector</li> <li>Stimulation of downstream timber investment (processing, manufacturing etc)</li> </ul>	<ul style="list-style-type: none"> <li>Reduced regulatory constraints and bureaucracy on timber harvesting, sales, transport and industry establishment and operation</li> <li>Reduced illicit logging</li> <li>Improved environment for private investment in timber industry</li> </ul>
3. Private land forest development	<ul style="list-style-type: none"> <li>Enhanced incomes for private landowners with plantations</li> <li>Reduced time poverty for rural women</li> </ul>	<ul style="list-style-type: none"> <li>Natural forest conserved due to plantation establishment (biodiversity and environmental services benefits)</li> <li>Environmental benefits of plantations (soils/water etc)</li> </ul>	<ul style="list-style-type: none"> <li>Increased investment into productive forest resources in rural areas</li> <li>Employment opportunities for plantation establishment, maintenance, nursery production in rural areas</li> <li>Establishment of women's plantation groups and their income measurement by W+ standard</li> </ul>	<ul style="list-style-type: none"> <li>Increased levels of private forest registration</li> </ul>



<p>4. Enhanced environmental services through nature-based tourism</p>	<ul style="list-style-type: none"> <li>• Enhanced incomes for IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor from providing tourism services e.g. homestay and others</li> <li>• Income earning opportunities from small-scale infrastructure development</li> </ul>	<ul style="list-style-type: none"> <li>• Forest environmental services including biodiversity enhanced due to protection from unplanned infrastructure development associated with tourism</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced tourist facilities contributing to increased incomes from tourism associated products and services in new areas</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced capacities of local (municipality) and state forestry institutions</li> <li>• Enhanced capacities of CBFM institutions</li> <li>• Women’s income and leadership increased through engagement in nature-based tourism</li> </ul>
<p>5. Watershed management through innovative technologies</p>	<ul style="list-style-type: none"> <li>• Enhanced incomes from fodder/livestock for CBFM group members</li> <li>• Income earning opportunities from planting and soil &amp; watershed activities</li> <li>• Enhanced climate resilience for adjacent households</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental (soil and water) and biodiversity enhancements resulting from degraded forest ‘treatments’</li> </ul>	<ul style="list-style-type: none"> <li>• Employment and income opportunities from implementing ‘treatments’</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced capacities of local (municipality) and CBFM groups for area-based planning</li> </ul>

## Section 7 Implementation Potential with Risk Assessment

84. Nepal has long experience with implementing multi-lateral and bi-lateral funded projects and programs and has sufficient technical capacity for implementing the projects proposed to be funded under FIP. However, with the changed situation of federalism and the reorganisation required to build new institutional structures at different levels, it is expected that there will be significant institutional capacity deficiencies for program implementation – especially at local levels.
85. Recently, Nepal has been implementing REDD+ readiness activities funded through FCPF with the REDD IC acting as the lead agency on behalf of Government of Nepal. Due to these experiences with REDD+ GoN and the REDD IC are now familiar with WB/FCPF fiduciary procedures, safeguards and WB procedures for monitoring.
86. At sub-national levels, the staff of the various departments comprising MoFSC have long experience with working in a multi-stakeholder environment – for example via district-wise forest sector coordination committees which include stakeholder representatives from central government agencies, local government, NGOs and communities/federations. These structures have been developed to ensure transparency and accountability in the implementation of forest sector programmes. In addition, many projects such as *Hariyo Ban*, MSFP, LFP and NSCFP have in the past worked closely with non-government service providers (usually local NGOs and/or federations) to deliver social mobilisation services and some technical services for community groups. This has been found to be an effective modality since it addresses the capacity gaps amongst local government forestry staff (especially for social mobilisation and governance support) and provides grass-roots support at community level by trained local people, where it can be most effective.
87. A significant issue for FIP-IP implementation is the lack of land-use plans and an effective procedure for land-use planning. At local (municipality level) the local government has responsibility for land-use planning but there is little capacity to prepare these plans or to enforce them. On a pilot level FIP-IP projects will work closely with municipalities to develop land use plans – for example in Project 4 for tourism-based land use plans and also in Project 5 where municipality level land-use plans will help to put in place measures that prevent further degradation of the already degraded forest environment e.g. by infrastructure.
88. CBFM groups are in many cases extremely long-standing – having been established from the late 1980's onwards. They are robust, autonomous and well-governed community-based institutions that have proved themselves flexible enough to adapt continually to changing external circumstances. For example, most CFUGs were able to continue to function during Nepal's 10-year conflict period at a time when government was not able to operate in conflict-affected areas and when they were being pressurised by both parties in the conflict. More recently they have been effectively implementing programmes on community-based adaptation and other activities. Many elected individuals in the recent local level elections, first developed their leadership skills from holding office in CBFM groups. An estimated 800+ individuals (including more than 250 women) were elected in the municipality elections of 2017 who have earlier held executive positions in CBFM groups<sup>24</sup>.

---

<sup>24</sup> Figure provided by FECOFUN

89. The FIP-IP proposes a range of investment projects that will require a high level of coordination and management within a coherent enabling environment. Although national level policies and legislation currently in place provide a sufficiently robust enabling environment for implementation of the proposed five projects, there is a requirement for some significant changes in the areas of regulation (on timber harvesting, sales, transport and utilisation) and in the fiscal policies governing investments into forestry and providing subsidies e.g. on import duties for forest utilisation machinery and equipment – essentially putting the forest sector on par with the agriculture sector. Under the new constitution, such regulatory changes (or deregulation) can now be done at state rather than federal level. This means that such changes are initially only required in states where Project 2 will be implemented and this will be easier to achieve than having to make these changes at national level.
90. A highly important and uncertain factor for FIP-IP implementation concerns the likely implications of the new constitution on FIP-IP implementation and management. Whilst the constitution itself and the associated ‘Unbundling report’ have tried to clarify new roles and responsibilities at federal, state and municipality levels, inevitably there will still be some grey areas especially where responsibilities are shared. Forest itself is a concurrent sector i.e. responsibility for forestry lies at several levels and the relationships between different levels still has to be clarified and tested especially the relationships between states and municipalities regarding forest management and also the relationships between municipalities and CBFM groups. At the time of writing, government structures at all levels are still not in place, and it will be some considerable time before this is the case.
91. There was almost universal agreement during the FIP-IP consultative process that capacity issues especially at local level were likely to be a major challenge for the forest sector over the coming period. For this reason, FIP-IP has not been designed assuming that these issues do not exist, but will use the opportunity of funds through FIP-IP to enhance capacities and support newly-emerging governance structures and procedures that need to be in place for REDD implementation readiness. Capacity development will form a major component of FIP-IP within all the investment projects, and across the whole program - hence the FIP-IP title “*Investing in Forests for Prosperity During a Time of Political Transformation*”. Identified implementation risks and proposed mitigation measures are described in *Table 13*.

**Table 13: Implementation risks and mitigation measures for FIP-IP**

Risk	Mitigation Measures for FIP-IP Projects
<p><b>Institutional (high risk)</b></p> <ul style="list-style-type: none"> <li>• Insufficient capacity of newly-established local level (municipalities) and states for program delivery</li> <li>• Unclear or contested roles and responsibilities at different government levels affect implementation</li> <li>• FIP-IP finance (via centre) strengthens the status quo – rather than supports the new constitutional model of federalism</li> </ul>	<p>Technical assistance provided for all projects and will be in-built into the program support structures</p> <p>Capacity development (within program) provided for municipality level, state level and community level</p> <p>Transfer of funds directly to state/municipalities will be ensured</p> <p>Multi-stakeholder programme governance structure for ensuring accountability and transparency</p> <p>Projects will be implemented vis CBFM groups of various kinds. These have robust and well-established governance structures in some cases going back for 25 years.</p>

<p><b>Economic (medium risk)</b></p> <ul style="list-style-type: none"> <li>• Private investors not willing to invest (projects 2 and 3)</li> <li>• Unable to shift fiscal policies in favour of investment into forestry</li> <li>• Commercial banks unwilling to lend for forestry investments</li> <li>• Capacity of private sector to effectively invest in forest sector limited</li> </ul>	<p>Interactions with Ministry of Finance and with selected banking and finance institutions (working with a pilot bank in States where project 2 is located)</p> <p>Development of ‘incentives and subsidies’ to encourage investment in forestry sector (enterprises and plantations)</p> <p>Provision of program technical assistance where required</p>
<p><b>Political (medium risk)</b></p> <ul style="list-style-type: none"> <li>• Unrest due to recent political changes affects program implementation</li> </ul>	<p>Concentrate program activities wherever possible to maximise impact</p> <p>Ensure social inclusion and equity throughout to avoid political conflicts</p>
<p><b>Governance (medium risk)</b></p> <ul style="list-style-type: none"> <li>• Deregulation (timber sales, harvest, transport, utilisation and processing) not possible</li> <li>• Lack of local land-use plans and enforcement mechanisms for these.</li> </ul>	<p>Close engagement and collaboration with state governments and municipalities</p> <p>Pilot approach – i.e. implement, monitor and assess impacts after some time</p> <p>Piloting of local level planning will be part of Projects 1 (including for LAPAs); Project 2 &amp; 5 (for landscape approach to SFM and watershed management) and Project 4 for nature-based tourism planning</p>
<p><b>Technical (low risk)</b></p> <ul style="list-style-type: none"> <li>• Suitable technologies (SWC with planting) unable to restore degraded watersheds</li> <li>• Suitable species for fast-growing plantations affected by pests/disease or grown poorly</li> </ul>	<p>Utilise best practices and experiences from within Nepal and elsewhere including new technologies and innovations</p> <p>Support adaptive research methodologies to address issues as they arise</p>
<p><b>Socio-economic (medium risk)</b></p> <ul style="list-style-type: none"> <li>• IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor unable to benefit from FIP-IP in an equitable and effective way</li> <li>• Service providers and government staff with insufficient skills on participatory methods and approaches</li> <li>• Raised stakeholder expectations on benefits and program roll-out not met (especially at community level)</li> <li>• Time poverty for women and others becomes a constraint to participation in project activities</li> </ul>	<p>DGM program will build capacities – especially on leadership and local level governance for IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor</p> <p>FIP-IP program focuses on capacity development esp. for IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor</p> <p>Capacity support (TA) for overall program development at state level and at municipality level through local service providers</p> <p>Capacity development support for service providers</p> <p>Capacity building on GESI integration into FIP-IP for government and non-government staff at local, provincial and federal.</p> <p>Provide employment and time-saving opportunities for women and poor to reduce time poverty</p>

<p><b>Environmental (low)</b></p> <ul style="list-style-type: none"><li>• Tree species used in plantations become invasive</li><li>• Timber harvesting leads to forest and environmental degradation e.g. by promoting monoculture</li><li>• Waste disposal effects caused by tourism result in environmental degradation</li></ul>	<p>Plantation species will be selected by landowners with non-invasiveness being an important criteria. Species planted already widely used in Nepal.</p> <p>No plantations will be carried out inside natural forest areas (all on underutilised agricultural land)</p> <p>Monoculture plantations discouraged</p> <p>Harvesting based on scientifically derived and approved harvesting plans for SFM with quantities of timber harvested always conservatively calculated</p> <p>Local people trained in environmentally sensitive timber harvesting techniques suitable for steep slopes etc.</p>
---	---

## **Section 8 Financing Plan and Instruments**

### **Costs and Financing Plan**

92. The estimated costs of each of the projects proposed for FIP-IP over the 8-year period and the total investment cost of USD 102.48 million are shown in Table 14. These figures may be further revised during project preparation. Projects 1, 2 and 3 are considered as full-scale investment projects whilst Projects 4 and 5 are considered as pilots at this stage with potential for scaling up over a wider geographical area in future. This is reflected in the costs of each project. The total FIP-IP cost includes 10% project management cost for each of the 5 projects and also 10% program management costs required to cover the main roles and responsibilities of the proposed Program Management and Coordination Unit as described in Section 5.2
93. Table 15 shows the indicative financing plan. Of the total cost of the 5 FIP-IP projects, the proposed USD 24 million contribution from FIP comprises 23% with Government of Nepal, Community and Private sector contributions comprising 20%, 13% and 15% respectively. GoN contribution includes government costs (estimated) at federal, state and municipality levels. The community contribution includes mainly labour costs for activities conducted by CBFM groups – especially in Project 2 for timber harvesting and the private contribution represents private investment – mainly into timber-based enterprises (Project 2) and plantations (Project 3). This leaves a funding gap of USD 29.2 million for which co-finance will be sought based on the pipeline projects being developed by different agencies shown in Table 10. The grant and loan components of FIP have been tentatively assigned to different projects as shown in Table 15 on the basis that those with a lower grant component have potential to generate more immediate financial and economic benefits.
94. FIP-IP will contribute significantly to Nepal's emissions reductions and is linked closely with some of the proposed interventions from Nepal's ERPD as reflected in Project 1. FIP-IP therefore represents upfront finance to fill the gap between readiness and receipt of carbon payments – linked to implementation of ERPD. Carbon payments are only expected after some years – hence FIP-IP meets some of Nepal's needs for interim finance for REDD+ implementation.

### **Finance Instruments**

95. In the present situation where government and the administrative system are in a transformative state, transformative approaches to financing are appropriate. Ideas on these have been incorporated into the individual projects. These will be further developed during project preparation. Underlying the financing instruments being used to implement the FIP-IP are some important principles:
- Project finance will be channelled to grass roots level as directly as possible for implementation purposes according to the newly defined roles and responsibilities of the three levels of government (federal, state and municipality) in Nepal's constitution and recently developed legislation (Figure 8). Importantly, fund flows must strengthen and capacitate the implementation of the proposed projects in the forestry sector via local government institutions rather than disempowering them.
  - At grass roots level, Nepal is fortunate in having in place many local level institutions (CBFM groups) which have proven capacity for delivering projects and activities for their member households in an accountable and transparent way. CBFM groups will be used as the vehicle for delivery of all proposed projects (with the exception of Project 3 which is based around private rather than community institutions) and

capacity development support will be provided in each project to enable them to do this.

- Almost all CBFM groups already have bank accounts – therefore electronic payments can be made directly into their accounts on completion of activities on the basis of results. For example, preparation of revised forest operation plans or constitutions. This will reduce risks and will strengthen accountability of these groups to their members. Public audits at community level will be supported to encourage greater accountability and transparency.
  - For some project-financed activities (especially in Projects 3 and 5) a results-based approach to finance will be applied. This means that payments will be released for activities such as plantation establishment and soil and water conservation treatments only after they have been carried out to an agreed standard and after on-site checking. It is expected that this will lead to better results in the longer term and will ensure a greater commitment to on-going management and maintenance.
96. Different financial instruments are proposed reflecting the overall transformative nature of the FIP-IP and the diverse nature of the projects proposed. At this stage, only indicative ideas can be given, but these potential financial mechanisms will be developed further during the preparation of each project and after further discussions with MoF and government at different levels. An important consideration will be the successes and failures of earlier programmes in the forestry sector to utilise different financial instruments so that previous weaknesses can be addressed. Some of the key innovative financial instruments that have been considered for incorporation for FIP-IP implementation include:
- Financing via banks and/or financial institutions – for example for private plantations established under Project 3 and possibly for supporting timber based forest enterprise under Project 2. Payments can be triggered for release into bank accounts of plantation owners based on criteria relating to growth/survival/establishment stage etc.
  - Concessional loans via banks – where FIP-IP shares the cost of issuing loans with banks, thus making the investment more attractive for the banks. This will be applicable mostly for Project 2 for the establishment of timber-based enterprise
  - The extent to which it is feasible and/or desirable to channel funds directly to local municipalities will be considered further during project preparation. At present, the funding options and the implications of these are unclear. However, it has been assumed (Figure 8) that funds transferred from FIP to the GoN Ministry of Finance/Treasury will need to be disbursed through state governments in order to be channelled to the implementing municipalities. Whether or not this proves to be the case will become clearer by the time of project preparation and also after the seven state governments have been established in late 2017.

**Table 14: FIP-IP Estimated costs (USD)**

USD	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Total
1. Sustainable forest management through CBFM	2,811,635	2,587,600	2,811,635	2,587,600	2,587,600	2,587,600	2,587,600	2,374,234	20,935,505
2. Forest management for a forest-based economy	3,354,497	3,354,497	3,354,497	3,354,497	3,354,497	3,354,497	3,354,497	3,354,497	26,835,979
3. Private land forest development	17,153	2,116,738	4,223,183	5,801,302	7,379,421	6,857,955	4,230,045	1,073,807	31,699,604
4. Enhanced environmental services through nature-based tourism	17,153	171,535	297,327	297,327	0	0	0	840,520	1,623,861
5. Watershed management through innovative technologies	2,731,077	3,043,106	3,043,106	3,043,106	3,043,106	2,985,928	2,985,928	509,703	21,385,062
<b>Total<sup>25</sup></b>	<b>8,931,516</b>	<b>11,273,476</b>	<b>13,729,749</b>	<b>15,083,833</b>	<b>16,364,625</b>	<b>15,785,981</b>	<b>13,158,070</b>	<b>8,152,761</b>	<b>102,480,011</b>

**Table 15: FIP-IP Finance Plan (USD)**

<sup>25</sup> Total project cost includes 10% project management and 10% programme management and preparation costs



	USD	Total cost	GoN	Community	Private	Other sources of finance (required)	FIP-IP	FIP Grant	FIP loan
1	Sustainable forest management through CBFM	<b>20,935,505</b>	4,999,703	126,733	-	8,809,069	<b>6,000,000</b>	3,000,000	3,000,000
2	Forest management for a forest-based economy	<b>26,835,979</b>	6,099,632	10,674,455	1,108,911	4,952,981	<b>6,000,000</b>	1,000,000	5,000,000
3	Private land forest development	<b>31,699,604</b>	6,043,564	792,079	14,178,218	5,685,743	<b>6,000,000</b>	0	6,000,000
4	Enhanced environmental services through nature-based tourism <sup>26</sup>	<b>1,623,861</b>	145,297	123,762	11,881	342,921	<b>1,000,000</b>	0	1,000,000
5	Watershed management through innovative technologies <sup>27</sup>	<b>21,385,062</b>	3,362,030	1,584,158	-	9,438,873	<b>5,000,000</b>	2,100,000	2,900,000
	<b>Total</b>	<b>102,480,011</b>	<b>20,650,226</b>	<b>13,301,188</b>	<b>15,299,010</b>	<b>29,229,587</b>	<b>24,000,000</b>	<b>6,100,000</b>	<b>17,900,000</b>
		<b>100%</b>	20%	13%	15%	29%	23%		

Notes:

GoN contribution includes government costs (estimated) at federal, state and municipality levels

Community contribution includes mainly labour costs for activities conducted by CBFM groups – especially in Project 2 for timber harvesting

Private contribution represents private investment – mainly into enterprises (Project 2) and plantations (Project 3)

<sup>26</sup> After some years of implementation there is scope for scaling-up this pilot using other sources of finance such as IDA/WB.

<sup>27</sup> After some years of implementation there is scope for scaling-up this pilot using other sources of finance such as IDA/WB.

## Section 9 Results Framework for Investment Plan

97. The logic model for FIP-IP is shown in *Table 16*. This shows how FIP-IP will contribute to Nepal's REDD+ objectives and overall FIP results framework<sup>28</sup> and how the five proposed investment projects will contribute to achieving these objectives. The Investment Plan prioritises outcomes, outputs and activities based on the consultation process during its preparation<sup>29</sup> - therefore, not all strategies and actions identified in Nepal's REDD+ Strategy could be incorporated into this Investment Plan.
98. The results framework for Nepal's FIP-IP is given in *Table 17*. The overall goal for Nepal's FIP-IP is taken from the draft REDD+ strategy mission statement: "*Strengthened resilience of forest ecosystems for emissions reductions and increased environmental, social and economic benefit*". This encapsulates the link between FIP-IP and emissions reduction from the forestry sector as well as emphasising the wider social, environmental and economic co-benefits.
99. *Table 17* shows how the five proposed investment projects will each contribute to the overall goal for Nepal's FIP-IP and deliver the FIP catalytic replication outcomes that will result in transformative impacts at country level. Results indicators are included at each level i.e. country (transformative indicators); FIP program (catalytic indicators) and indicators at the level of individual projects (results indicators). The relationships between program results and individual project results is not necessarily one-to-one since individual projects may contribute to more than one FIP catalytic outcome (multiple Nepal REDD+ strategy objectives). Whilst moving towards program implementation, proposed projects may be merged into one operation.
100. Program level baseline indicators are available for certain aspects at national level – where possible annotated in the footnotes for *Table 17*. However, for individual projects, project-specific baseline information will be gathered during project preparation as described in Annex 1. This baseline information will provide the basis for monitoring individual project results.
101. Frequent assessments are required to assess progress against certain project and programme indicators where such information is not readily available. It is expected that such studies and analysis will be commissioned by the FIP-IP Programme Management and Coordination (section 6.1) as required.

---

<sup>28</sup> CIF (2011) Forest Investment Program Results Framework (May 2011)

<sup>29</sup> Consultations included 62 focus group discussions and 7 state level workshops and 2 national level workshops involving more than 1,000 people in total (25% women).

**Table 16: Logic Model for FIP-IP**

Impact level	Type	Time scale	Results
Global (based on CIF results framework)	CIF final outcome	15-20 years	Improved low carbon climate resilient development
Nepal Development Goals (SDGs)	Transformative impacts	10-15 years	<p>Reduced GHG emissions from deforestation and forest degradation and enhancement of forest carbon stocks</p> <ul style="list-style-type: none"> <li>• Reduced poverty through improved quality of life for indigenous peoples and forest dependent communities</li> <li>• Reduced biodiversity loss and increased resilience of forest ecosystems to climate variability and change</li> </ul>
Nepal REDD+ Strategy	FIP Catalytic replication outcomes	5-10 years	<p><i>Objective 1:</i> Reduced carbon emissions, enhanced carbon stocks and improved ecosystem resilience</p> <p><i>Objective 2:</i> Improved resource tenure and fair and equitable sharing of carbon and non-carbon benefits of forests amongst right-holders, IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor</p> <p><i>Objective 3:</i> Increased livelihoods assets and diversified employment opportunities for women, IPs, <i>Madhesis</i>, <i>Dalits</i> and forest dependent local communities</p> <p><i>Objective 4:</i> Improved and harmonised policy and legal framework in line with national and international requirements and standards to harness carbon and non-carbon benefits, increase institutional capacity, coordination, governance, gender equality and social inclusion of the forestry sector</p> <p><i>Objective 5:</i> Establish and maintain a national forest monitoring system with robust measurement, monitoring, reporting and verification mechanisms</p>
Forest Investment Program	FIP Outputs & Outcomes	2-8 years	Five Investment Projects delivering or significantly contributing to the 7 policy areas identified in Nepal's Forest Policy (2015) and following the 12 strategies identified in Nepal REDD+ Strategy (Table 2). Detailed results are shown in Table 17
Investment projects	FIP Activities	1-8 years	Indicative activities for each project are shown in Annex 1 – Proposed Program pipeline. Details of these will be developed further during project preparation.
Inputs	<ul style="list-style-type: none"> <li>• Investments outside the forest sector</li> <li>• Investments in SFM including protection and management</li> <li>• Investments in institutional capacity, forest governance and information</li> </ul>		

**Table 17: Country level results framework for FIP-IP**

	Theme/Results	Success Indicator	Means of Assessment
<b>A: FIP transformative impacts</b>			
<i>Forests for Prosperity and Peace</i>			
<b>A.1</b>	Reduced GHG emissions from deforestation & forest degradation and enhancement of forest carbon stocks	Reduced emissions relative to reference emissions level (t CO <sub>2</sub> eq per year) Carbon sequestered through forest enhancement and re-forestation and other activities relative to forest reference level (t CO <sub>2</sub> eq per year)	<ul style="list-style-type: none"> <li>Using monitoring system established for Nepal's REDD+ strategy and ERPD<sup>30</sup></li> <li>Plantation area established by year with growth models for key tree species</li> </ul>
<b>A.2</b>	Reduced poverty through improved quality of life for IPs and local communities including <i>Dalits, Madhesis</i> , women and forest dependent poor	Number of households directly benefitting from forest management (out of total number of people targeted in FIP-IP implementation areas)	<ul style="list-style-type: none"> <li>Based on key livelihoods indicators (national social surveys)</li> <li>Disaggregated by gender, caste, ethnicity and well-being</li> </ul>
<b>A.3</b>	Reduced biodiversity loss and increased resilience of forest ecosystems to climate variability and change	Forest biodiversity loss halted and climate resilience of forest and forest dependent people enhanced	<ul style="list-style-type: none"> <li>National surveys and secondary information</li> </ul>
<b>B: FIP catalytic replication outcomes</b>			
<i>Strengthened resilience of forest ecosystems for emissions reductions and increased environmental, social and economic benefit</i>			
<b>B.1</b>	Reduced deforestation and forest degradation	Reduced forest loss (national level) Improved forest condition (national level) Increased levels of climate smart agricultural practices Number of GESI responsive, climate smart agricultural practices adopted/used.	<ul style="list-style-type: none"> <li>Data on area of avoided deforestation (natural forest cover against baseline)</li> <li>Data on forest area lost to infrastructure and conversion</li> <li>Data on fire incidence and damage levels</li> <li>Village level survey on GESI responsive practices</li> </ul>
<b>B.2</b>	Increased direct management of forest resources by IPs and local communities including women, <i>Dalits, Madhesis</i> and other forest dependent poor	Area of forest under CBFM in Nepal (compared with baseline)	<ul style="list-style-type: none"> <li>Disaggregated by CBFM modality/state/municipality/region</li> </ul>

<sup>30</sup> ERPD document (draft) submitted 2016 will provide baseline information

<b>B.3</b>	Improved enabling environment for REDD+ and SFM	Consistency of broader development and land use policies in the context of REDD+	<ul style="list-style-type: none"> <li>• Policy analysis and studies commissioned by FIP-IP Program Management and Coordination Unit</li> </ul>
<b>B.4</b>	Improved access to finance for forest sector including results-based finance for REDD+ and SFM	<p>Increase in areas covered by PES schemes associated with forests and forest landscapes</p> <p>Volume of finance channeled from PES schemes with provision for equitable benefit sharing with IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor</p> <p>Volume of finance in forestry sector from private sources</p>	<ul style="list-style-type: none"> <li>• Area of plantations covered by functioning PES schemes (voluntary)</li> <li>• Number of households (disaggregated into IPs, women, <i>Dalits</i>, <i>Madhesis</i> and others) benefitting from PES payments</li> <li>• Area of newly established plantations privately financed</li> </ul>
<b>B.5</b>	Replication of FIP learning in non-FIP countries (Regional catalytic impact)	Number of countries with representatives visiting Nepal's forestry sector institutions (government and non-government)	<ul style="list-style-type: none"> <li>• MoFSC and NGO records on visitors/official tours from other countries</li> </ul>
<b>C: FIP Program outcomes</b>			
<b>C.1</b>	Reduced pressure on forest ecosystems	Change in forest area in FIP-IP areas (including areas of both natural forest and plantation)	<ul style="list-style-type: none"> <li>• National level monitoring from remote sensing against baseline<sup>31</sup></li> </ul>
		Change in forest and watershed condition in FIP-IP areas (growing stock, regeneration status and evidence of biotic damage from fire and grazing)	<ul style="list-style-type: none"> <li>• Google image monitoring and Global Forest Watch data</li> <li>• Photo-point monitoring</li> </ul>
		Tonnes CO <sub>2</sub> sequestered by forest land in FIP-IP areas	<ul style="list-style-type: none"> <li>• Growing stock/biomass survey and crown cover data</li> </ul>
		Number of forest smart investments identified and incorporated into other sectoral plans/strategies	<ul style="list-style-type: none"> <li>• Project monitoring records</li> <li>• Area in environmentally sensitive watersheds covered by bioengineering technologies</li> </ul>
<b>C.2</b>	Sustainably managed forests and forest landscapes to address drivers of D & D	Out-turn of timber for domestic and commercial use from FIP-IP areas over baseline	<ul style="list-style-type: none"> <li>• Records of SFM (approvals for harvesting) and forest product trade</li> <li>• Data from individual forest areas/groups on quantities of harvested products</li> </ul>
		Area of forest being actively managed CBFM in FIP-IP areas	<ul style="list-style-type: none"> <li>• MoFSC database on CBFM</li> </ul>
		Evidence of increasing levels of legality in forest product trade (especially timber)	<ul style="list-style-type: none"> <li>• Media surveys (articles on illegal activities)</li> <li>• Legal records of prosecuted cases</li> </ul>

<sup>31</sup> MoFSC (2015) State of Nepal's Forests. Department of Forest Research and Survey, Forest Resource Assessment, Nepal. Government of Nepal, Kathmandu

<b>C.3</b>	An institutional and legal/regulatory that supports SFM and also protects the rights of IPs and local communities including women, <i>Dalits</i> , <i>Madhesis</i> and other forest dependent poor to benefit from forests	Increased participation of IPs and local communities including women, <i>Dalits</i> , <i>Madhesis</i> and other forest dependent poor in forest sector governance structures and institutions at community, municipality, state and central levels	<ul style="list-style-type: none"> <li>Records and surveys of CBFM groups (disaggregated by gender, ethnicity, caste etc.)</li> <li>Records of participation in multi-stakeholder forums esp. at municipality and state (province level) Forest sector employment data (against baseline) disaggregated by gender, ethnicity and other social factors.</li> </ul>
		Evidence of deregulation affecting timber harvesting, transport and utilisation (by CBFM groups and forest based entrepreneurs)	<ul style="list-style-type: none"> <li>List of regulations removed and/or altered concerning timber and other forest product harvesting, movement and utilization</li> </ul>
		Evidence of changes in fiscal policies (relating to finance/loans) for forest-based utilisation consistent with need for enhanced entrepreneurship in forestry and consistent with other NR sectors	<ul style="list-style-type: none"> <li>Changes in % of loans issued by development banks for forest-related investment cf. baseline</li> <li>Value of investment into forest-based enterprises (based on surveys and data from financial institutions)</li> </ul>
		Number of new jobs created jobs in forest based enterprises	<ul style="list-style-type: none"> <li>Forest sector employment data (against baseline) disaggregated by gender, ethnicity and other social factors.</li> </ul>
<b>C.4</b>	Empowered IPs and local communities including women, <i>Dalits</i> , <i>Madhesis</i> and other forest dependent poor to address drivers of REDD+ and protect their rights	Enhanced IP, women and other disadvantaged group voice and influence in forestry governance structure at community, municipality and state levels	<ul style="list-style-type: none"> <li>Disaggregated data on leadership positions from gender, caste, ethnicity perspectives; and # or amount of FIP resources mobilized for/by IPs, women and <i>Dalit</i> groups.</li> </ul>
<b>C.5</b>	Increased capacity building of institutions and stakeholders to address direct and underlying drivers of deforestation and forest degradation as addressed in Nepal REDD+ strategy	Evidence of improved cross-sectoral coordination, networking and cooperation to promote ‘forest smart’ investments	<ul style="list-style-type: none"> <li>Frequency and participation of stakeholders at coordination meetings at local level</li> <li>Evidence of cross-sectoral land use plans at local level and LAPAs</li> <li>Evidence of functioning state level coordination committees</li> </ul>
		Numbers of CBFM members, local body members and others participating in REDD+ and forestry-related training	<ul style="list-style-type: none"> <li>Project records</li> </ul>

		States with policies, legal framework, regulations, administrative and budgeting systems appropriate to addressing REDD+ strategies	<ul style="list-style-type: none"> <li>• State records of changes in policies and regulations</li> </ul>
		Number of farmers/plantation owners adopting improved forest management and climate-smart agriculture practices e.g. stall feeding	<ul style="list-style-type: none"> <li>• Project records of famers benefiting from fodder/livestock interventions (disaggregated)</li> <li>• W+ baseline for time saving for women</li> </ul>
<b>C.6</b>	New and additional resources for forest and forest related projects	Level of private sector investment leveraged into forestry enterprises	<ul style="list-style-type: none"> <li>• Project records</li> </ul>
		Number of community-private partnerships established for forest based enterprise	<ul style="list-style-type: none"> <li>• Project records</li> </ul>
		Level of investment by Multi-lateral and bilateral other donor partners into Nepal's forestry sector	<ul style="list-style-type: none"> <li>• Ministry of Finance records/data</li> </ul>
		Number of PES projects relating to forest-carbon established, functioning and receiving payments	<ul style="list-style-type: none"> <li>• Information from REDD IC records</li> </ul>
<b>C.7</b>	Improved forest sector governance	Improved forest sector transparency	<ul style="list-style-type: none"> <li>• Against baseline established by Forest sector transparency study<sup>32</sup></li> <li>• The existence and effectiveness of conflict resolution and grievance redress mechanisms</li> <li>• Existence and adequacy of safeguards</li> </ul>
		Evidence of reduced illegal activity in forest product harvesting and utilisation	<ul style="list-style-type: none"> <li>• MFSC records on illegality</li> <li>• Community perception survey (against baseline)</li> </ul>
		Consistency between forest policy and its implementation	<ul style="list-style-type: none"> <li>• Evidence of deregulation (regulations changed or amended) to support policy and strategic objectives e.g. timber utilization and marketing</li> </ul>
		Consistency between forestry policy and other sectoral policies at both national (federal level) and at state (provincial) levels	<ul style="list-style-type: none"> <li>• Evidence of cross-sectoral policies e.g. REDD+ and environmental esp. at state level</li> <li>• Evidence of inter-sectoral dialogue (including forestry) esp. at state level</li> </ul>
		Strengthened coordination among forest-related government agencies and across scales of govt (national, provincial, district) as evidenced by policies developed	<ul style="list-style-type: none"> <li>• Evidence of multi-stakeholder and socially inclusive forestry platforms at state level</li> </ul>

<sup>32</sup> Paudel, D; Khanal DR & Branney P (2011) Transparency in Nepal's Forest Sector: A Baseline Assessment of Legal Indicators, Provisions and Practices. Livelihoods and Forestry Programme, Kathmandu.

		by consensus across ministries	
		Enhanced dialogue for policy development amongst stakeholders, including private sector in various multi-stakeholder forestry forums	<ul style="list-style-type: none"> <li>• Stakeholder processes allow the participation of marginalized groups in decision-making processes</li> <li>• Development or enhancement of legal and regulatory frameworks on forests through participatory stakeholder processes</li> </ul>
		Equitable benefit sharing in favour of poor and socially excluded groups	<ul style="list-style-type: none"> <li>• CBFM records of targeted benefit-sharing</li> </ul>
		More gender and socially responsive government, civil society and private institutions	<ul style="list-style-type: none"> <li>• Evidence of gender responsive financial resource allocation</li> <li>• Attitudinal survey within and outside institutions</li> </ul>
		Inclusive forest governance	<ul style="list-style-type: none"> <li>• Evidence of gender responsive financial resource allocation</li> <li>• Evidence of resource mobilization by IPs, women, <i>Dalits, Madhesis</i> and other disadvantaged groups</li> </ul>



## **Annex 1: The Proposed Program and Project**

### **Program Management**

102. The proposed FIP-IP for Nepal consists of five area-based investment projects contributing to an overall objective of '*Strengthened resilience of forest ecosystems for emissions reductions and increased environmental, social and economic benefit*' (Table 18). Coordinated program management and leadership during FIP-IP implementation is essential to ensure consistency of reporting and monitoring against the identified investment plan results (Section 9) and also to ensure that lessons learnt from all projects are reincorporated into policy and practice and shared with relevant stakeholders. This will be ensured by having a central Program Management and Coordination Unit funded as part of the investment plan.

103. Key functions of the Program Management and Coordination Unit will include:

- FIP-IP coordination at country level
- Providing leadership for FIP-IP at the national level
- Supporting cross-project initiatives such as e.g. skills development on participatory methods and approaches; integrating gender and social inclusion within organisations and projects; and leadership and other skills development in government, civil society and private sector institutions.
- Commissioning policy analysis and policy research
- Ensuring knowledge sharing and providing technical assistance for all projects including ensuring regular communication between projects
- Providing implementation support for all projects
- Coordination of program and project monitoring and routine progress reporting
- Liaising with WB/FIP and with FIP-IP co-funders including meeting all reporting requirements and representation in international forums
- Organizing annual/biennial meetings on the FIP-IP to ensure transparency and accountability for different stakeholder groups

### **Program Governance**

104. For accountable and transparent program governance, a multi-stakeholder Program Steering Committee will be established for FIP-IP with both government and civil society representatives including those from the private sector. Additionally, a stakeholder forum that ensures wider accountability and awareness of the program will be established in line with that established for REDD+.

105. The Program Management and Coordination Unit will also ensure synergies across all investments and inter-agency collaboration wherever possible. Figure 8 shows the indicative programme implementation structure that will be further developed during detailed project preparation. For each investment project, details of the implementation and funding modality will be developed during detailed project preparation.

Table 18: Summary of proposed investment projects

Nepal Forest Investment Plan Objective: Strengthened resilience of forest ecosystems for emissions reductions and increased environmental, social and economic benefit				
Project 1	Project 2	Project 3	Project 4	Project 5
<b>Sustainable forest management through CBFM</b>	<b>Forest management for forest-based economy</b>	<b>Private land forest development</b>	<b>Enhanced environmental services through nature-based tourism</b>	<b>Watershed management through innovative technologies</b>
<b>Scope/coverage</b>				
Terai districts including ERPD area (includes Chure)	Selected locations in plantation-rich districts e.g. Sindhu, Kavre, Dolakha and & selected mature forests in Terai and hills	Middle Hills and Terai	Selected municipalities (pilots) with domestic/regional tourism potential (not in PAs) in E. Nepal and Mahabharat	Lower river valleys with extensive degraded forest e.g. Sun Koshi/Dudh Koshi & Upper Kali Gandaki Watershed
<b>Sub-components/activities</b>				
<ul style="list-style-type: none"> <li>Handover of remaining forest areas to CBFM groups (various types)</li> <li>Supporting CBFM for new and existing groups including operational plan/management plan and constitution preparation and revision and implementation</li> <li>Land allocation inside CBFM areas for poor and <i>Dalit</i> households with emphasis on fodder production</li> <li>Supporting CBFM group governance especially for enhancing participation, leadership, decision-making and benefit sharing by IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor.</li> <li>Supporting local climate change adaptation planning and implementation of activities through CBFM groups for enhancing climate</li> </ul>	<ul style="list-style-type: none"> <li>Preparing and implementing timber harvesting/utilisation plans for selected CBFM groups at a landscape level</li> <li>Supporting CBFM groups and individual entrepreneurs to obtain equipment for timber harvesting, transport to roadside, safety etc. and for training in its use</li> <li>Supporting the establishment of community-private partnerships between entrepreneurs and CBFM groups for agreements on sale/purchase of timber and investment into small-medium timber enterprises for sawmilling, wood peeling, timber treatment, seasoning and others</li> <li>Negotiating and supporting the deregulation of timber harvesting, sales, transport and utilisation with selected state governments and municipalities in project areas</li> </ul>	<ul style="list-style-type: none"> <li>Identifying, establishing and supporting landowner/farmer 'groups' for establishing blocks of fast-growing plantations on under-utilised agricultural land and registering the land as private plantations (focusing on women's groups wherever possible)</li> <li>Linking farmer groups with private investors through medium-term lease and buy-back agreements to attract capital to establish plantations</li> <li>Subsidising plantation costs through performance-based payments for establishment and maintenance and insurance premium subsidies with additional incentives for particularly climate vulnerable areas e.g. along flood-prone river margins in the Terai</li> <li>Linking plantation establishment with fodder</li> </ul>	<ul style="list-style-type: none"> <li>Area-based planning with municipalities and CBFM groups in identified new tourism areas (outside existing protected areas)</li> <li>Supporting small-scale eco-friendly infrastructure e.g. toilets, car parking, water supplies, scenic trails, viewpoints, alternative energy, sustainable waste disposal, community halls, and homestay facilities etc. through CBFM groups</li> <li>Marketing support for new tourism areas/municipalities with private sector tie-ups</li> <li>Developing standards and registration processes for homestays (with local municipalities)</li> <li>Capacity development for eco-friendly homestay management (for women)</li> <li>Capacity development for ancillary tourism services e.g. nature guides, handicrafts, cultural shows,</li> </ul>	<ul style="list-style-type: none"> <li>Rehabilitating degraded forest under CBFM by a combination of plantation and intensive soil and water conservation technologies incorporating traditional plantation technologies linked to CC adaptation e.g. for water infiltration, runoff control and bioengineering using grasses, shrubs and bamboo</li> <li>Supporting activities through CBFM groups using performance-based payments system</li> <li>Supporting LHF groups and others with grass planting and livestock development with especially focus on targeted poor households</li> <li>Capacity development for CBFM group members and government staff in appropriate soil and water conservation technologies</li> <li>Promoting seedling production (trees, grasses)</li> </ul>

<p>resilience of IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor households</p> <ul style="list-style-type: none"> <li>• Pro-poor public land management working closely with local municipalities</li> <li>• Capacity development, coaching and awareness raising for CBFM groups and member households and for local municipalities to enhance collaborative leadership, coordination and fund management.</li> </ul>	<ul style="list-style-type: none"> <li>• Changes to Nepal Rastra Bank policies to recognize forestry as a productive sector and make mandatory policy provisions for banks and financial institutions to spend at least 2-3% of their total loan portfolio in forestry</li> <li>• Working with banks and financial institutions to re-formulate their policies and procedures to make provision for concessional loans (piloting subsidised interest rates) for larger commercial forest industries</li> <li>• Capacity and skills development and market linkage services for micro/small forest-based enterprises in rural communities</li> <li>• Supporting subsidised insurance premiums and import duties for new timber-based forest enterprises</li> <li>• Skills development and access to finance for IPs, women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor to gain employment in timber-based forest enterprises</li> </ul>	<p>and stall-feeding investments to reduce grazing damage</p> <ul style="list-style-type: none"> <li>• Supporting women's groups for certification under recognised PES schemes e.g. W+ (on a pilot basis)</li> <li>• Supporting private nursery production including capacity development on new technologies, development of seedling standards, quality assurance and technical assistance and buy-back arrangements</li> <li>• Capacity development for nursery and plantation technologies especially for IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor.</li> </ul>	<p>music etc. with focus on IPs and local communities including women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor.</p> <ul style="list-style-type: none"> <li>• Promoting agricultural product production and sale to tourists e.g. organic fruit, vegetables from the adjacent area</li> </ul>	<p>and bamboo) and supply through supporting locally established private nurseries</p> <ul style="list-style-type: none"> <li>• Fire management activities</li> </ul>
---	--	--	---	---

## Project 1: Sustainable Forest Management Through CBFM

Project Summary	
<b>Indicative FIP-IP resource allocation</b>	USD 6 million
<b>Geographical location</b>	All Terai districts including ERPD area (including Chure)
<b>Transformational Impact</b>	<ul style="list-style-type: none"> <li>• Strengthened local governance for forestry sector (at state and municipality levels) in the context of new federal structure</li> <li>• CBFM transformed to be more gender, equity and social inclusion and pro-poor focused</li> <li>• Forest quality improved over extensive areas</li> </ul>
<b>Results Indicators (for areas covered by the project after 8 years)</b>	<ul style="list-style-type: none"> <li>• 161,000 ha of forest under CBFM in project areas with new updated/revised Operational Plans/Management Plans and Constitutions being implemented</li> <li>• 900 ha of public land brought under management for agroforestry</li> <li>• 150,000 identified poor and <i>Dalit</i> households benefiting from pro-poor targeted activities such as land allocation (inside CBFM areas), LHF management, public land management and climate change adaptation</li> <li>• At least 50% of staff hired by service providers in technical and social areas are women</li> <li>• All CBFM regimes adopting the representational provisions of CF Guidelines (2009) i.e. Number of IPs, women, <i>Dalits</i>, <i>Madhesis</i> and other forest dependent poor proportionately represented and active on executive committees of CBFM groups of all kinds covered by the project</li> </ul>

### (a) Lead Government Agency

106. Government of Nepal Department of Forests – at State and Municipality Level in collaboration with Department of Livestock Agency at Municipality level for fodder/livestock aspects will lead the project. Local NGOs will provide social mobilisation and capacity development support – especially for IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor

### (b) Problem Statement

107. Nepal's forest sector contributes a large proportion of the country's overall CO<sub>2</sub> emissions, largely as a result of land-use change i.e. conversion of forest to non-forest uses or gradual depletion of forest growing stock. Forest areas under government control are more likely to be subject to deforestation and forest degradation than forests where management responsibility has been transferred to CBFM groups. Therefore, increasing the level of transfer of forests from government to CBFM groups and supporting these groups to plan and implement sustainable forest management operations to meet their forest product needs is a proven and practical means for reducing emissions. Recognising this, Nepal's draft ERPD has focused on forest areas in Nepal's Terai (especially western Terai) and Chure where deforestation and the rate of forest degradation is particularly severe – partially because there are forests that have not yet been handed over the CBFM groups. The draft ERPD has identified transfer of additional forests to CBFM groups and support for existing CBFM groups in the Western Terai (TAL area) as interventions 1 & 2.

108. Experience has shown that addressing issues of equity and social inclusion are critical to the success of CBFM and the sustainability of the concerned local institutions. Sustained investments are needed for social mobilisation and capacity development to ensure IPs

and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor in CBFM groups can more effectively contribute to the group leadership and decision-making processes and can secure an equitable share of benefits according to their specific needs. Means of doing this have been trialled and demonstrated in the past by various projects. Investments are needed to scale-up these approaches to ensure a range of co-benefits, especially for poor and socially disadvantaged households at the same time as addressing a key source of emissions.

**(c) Transformational Impact and Expected Co-benefits**

109. The transformative effect of this project will be to strengthen local level governance in the forestry sector at a critical time as the country makes its transition to new governance arrangements under the new constitution. It will catalyse a shift in CBFM making it more proactive in terms of strengthening participation, leadership, decision-making and benefit-sharing by IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor

110. Project 1 builds on considerable prior experience of CBFM in Nepal but adopts a transformative approach by focusing on actions that specifically target IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor and by supporting and strengthening new forest sector governance structures and capacities resulting from new constitutional roles. Some of the specific interventions proposed have already been piloted successfully and have shown to have benefits for selected marginalised households e.g. land allocation for poor inside CBFM areas and public land management. These activities will be scaled-up through this investment project. In parallel, DGM funds may be used to build capacities of IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor to enable and empower them to be fully engaged as participants, decision-makers and beneficiaries.

111. Approximately 586,000 households of which at least 30% are IPs, women-headed, *Dalits*, *Madhesis* and other forest dependent poor, will benefit through enhanced livelihoods (natural, social and economic capital) and reduced climate vulnerability. 161,000 ha of forest managed under strengthened CBFM and subsequently protected will also generate environmental services for soil and water conservation and biodiversity conservation (especially in the Chure).

**(d) Project Description**

112. Project 1 will scale-up and support the transfer of forest management responsibility from government to community groups under different CBFM regimes in the Terai and adjacent Chure region. The project will provide co-finance for interventions 1 & 2 of Nepal's ERPD and will cover the 12 ERPD districts plus the remainder of the Terai and adjacent Chure districts.

113. Project activities will include:

- i. Handover of remaining forest areas to CBFM groups (various types)
- ii. Supporting CBFM for new and existing groups including operational plan/management plan and constitution preparation and revision and implementation
- iii. Land allocation inside CBFM areas for poor and *Dalit* households with emphasis on fodder production
- iv. Supporting CBFM group governance especially for enhancing participation, leadership, decision-making and benefit sharing by IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor.

- v. Supporting local climate change adaptation planning and implementation of activities through CBFM groups for enhancing climate resilience of IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor households
- vi. Pro-poor public land management working closely with local municipalities
- vii. Capacity development, coaching and awareness raising for CBFM groups and member households and for local municipalities to enhance collaborative leadership, coordination and fund management.

114. The project incorporates a significant element of capacity development and awareness raising aimed at supporting new municipalities and states in their roles in local forest sector governance and supporting existing and newly established CBFM groups and their household members. Elements of capacity development especially focusing on IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor will also be delivered through the DGM (Annex 3)

115. The investment will cover approximately 161,000 ha of forest which would otherwise be subject to further loss of degradation resulting in a total emissions reduction of about 0.8 million t CO<sub>2</sub> e over 8 years.

**(e) Implementation Readiness**

116. Nepal's enabling environment for CBFM including the 2016 amendments to the 1993 Forestry Act and the Forest Policy (2015) and draft REDD Strategy (2016) create a favourable situation for implementing Project 1. The project is fully aligned with Nepal's Policy framework – see *Table 9* and Nepal's draft REDD Strategy see *Table 3* and changes in policy and/or legislation are not anticipated for implementation readiness. However, the implications of the new constitution in terms of responsibility for forestry sector investments by different levels of government needs to be supported by more clarity on roles and lines of responsibility, fund flows and reporting. It is assumed at this stage that the main delivery agency for Project 1 will be the local level forestry agencies at municipality level working with several state governments. Clearly there will be capacity gaps – at least during the initial period to which the project is expected to contribute significantly and addressing through training, coaching and mentoring.

117. The next step will be to produce a detailed project design document and implementation/financing plan and to seek formal approval from federal, state and municipalities on this. This will include baseline information and clarity on the project delivery modality.

**(f) Potential National and International Partners including their REDD+ financial support**

118. The project has potential to attract co-finance from various other sources including international climate finance and bilateral and multi-lateral support (*Table 10*). A Green Climate Fund (GCF) project is currently under preparation by FAO for 'Building a Resilient Churia Region'. This project will focus on adaptation actions for the Chure Region emphasising forest-related actions such as soil conservation and fire management. This project has links with the GoN-funded President Chure-Terai Madhesh Conservation Development Board which supports programmes for environmental conservation and sustainable development, working through community groups in the Chure Region. DFID's on-going Nepal Climate Change Support Programme (NCCSP) provides expertise to help communities to develop Local Adaptation Plans of Action (LAPAs) and finances implementation and monitoring of the activities such as irrigation systems, improved seeds, rainwater harvesting, and flood

defences. There are opportunities to collaborate with this programme as CBFM groups play an important role in preparing and implementing LAPAs although this may change in the context of the new constitution.

**(g) Rationale for FIP Financing**

119. This investment will contribute directly to Interventions 1 and 2 of Nepal’s draft ER-PD which proposes to transfer approximately 200,000 ha to CBFM and review and update management plans for a further 340,000 ha already transferred in the TAL area. The Western Terai region of Nepal contributes to the highest levels of CO<sub>2</sub> emissions from deforestation and degradation. Bringing forests under CBFM management and strengthening group governance is an effective means for controlling deforestation and forest degradation thus reducing emissions whilst also having significant potential for delivering social and environmental benefits. CBFM groups have proved to be effective local institutions for delivering community-based adaptation actions to strengthen climate resilience of vulnerable households and forests.

120. Whilst CBFM in Nepal is well-established as a means to conserve forests, targeted investments, linked with the funds available under DGM will be used to strengthen the participation and voice of disadvantaged groups including IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor to ensure equitable and pro-poor decision-making and benefit sharing. Although specific policy changes are not required to do this, the investment will focus on implementing existing policies to transform governance and decision-making processes of CBFM groups in favour of disadvantaged households and on removing barriers to their full participation.

USD million			
Total project finance required	FIP		Co-finance
	Grant	Loan	
15.8	3.0	3.0	9.8

## Project 2: Forest Management for Forest-Based Economy

Project Summary	
<b>Indicative FIP-IP resource allocation</b>	USD 6 million
<b>Geographical location</b>	(a) Kavre, Dolakha & Sindhupalchowk, (extensive mature plantations) and (b) other selected accessible natural mature forests in Terai and hills
<b>Transformational Impact</b>	<ul style="list-style-type: none"> <li>• Legislation for timber harvesting, sales, transport and utilisation revised (in 2 states)</li> <li>• Private investment and community-private partnerships increased bringing finance, jobs and incomes from rural timber based enterprises (in 2 states)</li> </ul>
<b>Results Indicators (for areas/states covered by the project after 8 years)</b>	<ul style="list-style-type: none"> <li>• 72,000 ha of forest (under CBFM) covered by approved sustainable timber harvesting/utilisation plans</li> <li>• 4 million m3 of timber harvested sustainably from forest areas with harvesting/utilisation plans (in project area) over 8 years.</li> <li>• 14 new timber-based forest industries established and operational in the project areas</li> <li>• At least 10 regulations concerned with timber harvest, sale, transport and utilisation revised in favour of the establishment of timber-based industry (in at least 2 states)</li> <li>• 50% of new jobs created in timber harvesting and timber-based industry for local IPs, women, <i>Dalits</i>, <i>Madhesis</i> and other disadvantaged poor.</li> </ul>

### (a) Lead Government Agency

121. Government of Nepal's Department of Forests – at State and Municipality Level in selected states with substantial productive forest areas having potential for SFM will lead the project and provide technical assistance. Local NGOs and other service providers will provide social mobilisation, capacity and skills development aimed primarily at creating opportunities for IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor to become employed in timber harvesting and local forest-based industry.

### (b) Problem Statement

122. Nepal's forests represent a valuable and productive resource potentially able to provide timber and wood products which are in high demand by households and forest-based industries. At present, most forests are under-managed and produce only small volumes of timber mostly for local, subsistence use whilst at the same time Nepal imports about 90% of its softwood timber requirements and the demand is increasing as the economy grows. Timber imports contribute to Nepal's trade deficit. Timber utilisation and processing industries are often located far from forest areas (due to restrictions on their location) resulting in additional costs for transport and lost employment opportunities for local people in rural areas. Timber harvesting, sales, transport and utilisation is beset by excessive regulations and controls aimed at preventing illegal timber use but at the same time creating a disincentive for sustainable timber production and for supplying raw materials for forest-based industries in locations close to forest resources.

123. Entrepreneurs are aware of the potential for investing in forest-based industry but they are discouraged from doing so by the lack of guaranteed supplies of raw material, excessive and bureaucratic regulations and unavailability of start-up finance as compared with other sectors such as agriculture.



**(c) Transformational Impact and Expected Co-benefits**

124. The project will transform the enabling environment for timber-based forest industry by making changes in rules and regulations governing timber harvesting, sales, transport and utilisation in two target states to stimulate establishment of timber using industries. Under the constitution, states can now develop their own regulations in this way. In addition, the project will catalyse changes in the fiscal policy environment so that commercial banks become more willing and able to provide finance for forest-based industry and will also promote subsidies that create additional incentives e.g. on insurance premiums and import duties for equipment. Working in two states initially, the project has potential to transform forest industries nationally with significant implications for the economy such as reduced timber imports and trade deficit, more green jobs in primary timber processing and downstream manufacturing and yielding greater incomes for CBFM groups with productive forests.
125. Linking forest based timber processing industries closely with CBFM groups who have productive forest resources has potential to generate income from timber sales, create rural jobs especially for IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor, to stimulate the local economy and stimulate productive scientific forest management contributing to Nepal's REDD+ objectives. Deregulation and increasing the potential for legality in timber production and transport will enhance forest sector governance, transparency and local accountability.

**(d) Project Description**

126. The project will link selected CBFM groups who have productive forests or plantations with private entrepreneurs to plan and implement scientific timber harvesting and establish local small-medium scale timber utilisation industries. It will cover two broad areas in Nepal: (i) selected Middle Hills districts with extensive, mature plantations e.g. Dolakha, Sindhupalchowk and Kavrepalanchok (State 3) and (ii) CBFM groups with productive forests in the Terai and Middle Hills. Stimulating productive forest utilisation for timber will create local green jobs and cash incomes and will ensure sustainable forest management and conservation (including protection from fire) as it will generate local resources that can be used for this purpose.
127. Project activities will include:
- i. Preparing and implementing timber harvesting/utilisation plans for selected CBFM groups at a landscape level
  - ii. Supporting CBFM groups and individual entrepreneurs to obtain equipment for timber harvesting, transport to roadside, safety etc. and for training in its use
  - iii. Supporting the establishment of community-private partnerships between entrepreneurs and CBFM groups for agreements on sale/purchase of timber and investment into small-medium timber enterprises for sawmilling, wood peeling, timber treatment, seasoning and others
  - iv. Negotiating and supporting the deregulation of timber harvesting, sales, transport and utilisation with selected state governments and municipalities in project areas
  - v. Changes to Nepal Rastra Bank policies to recognize forestry as a productive sector and make mandatory policy provisions for banks and financial institutions to spend at least 2-3% of their total loan portfolio in forestry
  - vi. Working with banks and financial institutions to re-formulate their policies and procedures to make provision for concessional loans (piloting subsidised interest rates) for larger commercial forest industries

- vii. Capacity and skills development and market linkage services for micro/small forest-based enterprises in rural communities
- viii. Supporting subsidised insurance premiums and import duties for new timber-based forest enterprises
- ix. Skills development and access to finance for IPs, women, *Dalits*, *Madhesis* and other forest dependent poor to gain employment in timber-based forest enterprises

128. The project incorporates capacity development and awareness raising aimed at supporting new municipalities and states to develop a more favourable policy and regulatory environment for timber production and utilisation. It will also develop skills amongst household members of CBFM groups in timber harvesting and associated activities to enable IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor to pursue employment opportunities in newly established local forest industries.

129. The project will bring 72,000 ha of forest under sustainable timber harvesting/utilisation plans for timber production supporting approximately 14 new small-medium sized timber utilisation industries located close to the target productive forest areas and will create approximately 6.9 million person-days of new employment in timber harvesting and processing and will result in about 0.3 million tonnes CO<sub>2</sub> e emissions reductions over the 8-year project period.

**(e) Implementation Readiness**

130. Nepal's Forest Policy (2015) promotes '*Increase productivity of forestry sector and production of forest products through sustainable forest management*' (Policy 1) and '*Create green employment and value addition by involving private sector in forest development and expansion through forest enterprise promotion, product diversification and marketing*' (Policy 5) both of which create a strong policy basis for this project. However, the present enabling environment for implementing this policy is limiting resulting in excessive bureaucratic procedures and bottlenecks that discourage investment by entrepreneurs. The project will support a process of deregulation to remove these constraints - under the new federal system such changes are possible at state level. Specifically, regulatory changes that are required include:

- Timber sales - to enable CBFM groups to enter into long-term agreements on timber supplies (partnerships) with to forest based industries thus guaranteeing raw material supplies (removal of requirement for timber to be sold by auction by CBFM groups)
- Simplification of the procedures for approving sustainable timber harvesting plans and their implementation (in selected states)
- Removal of restrictions on the establishment of timber based enterprises (in selected states)
- Removal of restrictions on timber movement and transport to facilitate smooth and uninterrupted supplies of timber from forest to timber-using enterprises and also for movement of semi-processes or manufactured timber products to markets in Kathmandu and elsewhere

131. Changes in fiscal policy will also be made to encourage commercial banks to provide start-up finance for investment into forest industries such as sawmilling, treatment and seasoning, veneer making and timber-board making of various kinds. This may include a requirement for commercial banks to invest a percentage of their investment capital into forestry (in the same way that this is presently required for agriculture). Additional

incentives in the form of subsidies on import duties (on forestry processing equipment) and insurance premiums will be discussed and negotiated with the Ministry of Finance.

132. The next step will be to produce a detailed project design document and implementation/financing plan for the project and to seek formal approval from federal, state and municipalities on this. This will include baseline information and clarity on the project delivery modality.

**(f) Potential National and International Partners including their REDD+ financial support**

133. The project has potential to attract co-finance from various other sources including international climate finance and bilateral and multi-lateral support (*Table 10*). Sustainable forest management is one of the proposed investment areas for ERPD and this may attract some external funding once ERPD is endorsed. The main additional potential source of funding from Project 2 is from the private sector for investment in timber-based enterprises. Several measures are proposed as an integral part of this project to create a more favourable environment for attracting such sources of finance (para 127).

**(g) Rationale for FIP Financing**

134. The enhanced growing stock of forests after several decades of CBFM and protection is not yet reflected in a dynamic and forward-thinking forest industry that creates local jobs especially in rural areas, that substitutes for timber and wood products imported from other countries and that brings revenues to CBFM groups with substantial forest resources further catalysing their management and protection. Providing a low level of finance from the FIP-IP for key aspects (training, plan preparation, harvesting equipment etc.) has potential to stimulate the forest industry in Nepal in a significant way and to generate considerably more private investment into forestry enterprises – provided that the enabling environment can be transformed in the way described above. In addition, whilst for this project it is proposed to initially operate in only 2 or 3 states, if successful, the approach can be expanded to other states with little additional investment.

USD million			
Total project finance required	FIP		Co-finance
	Grant	Loan	
8.9	1.0	5.0	2.9

## Project 3: Private Land Forest Development

Project Summary	
Indicative FIP-IP resource allocation	USD 6 million
Geographical location	Middle Hills and Terai
Transformational Impact	<ul style="list-style-type: none"> <li>Shift from government financed plantations on government/community land to privately financed plantations on private land</li> <li>Increased self-sufficiency in softwood (reduced imports)</li> </ul>
Results Indicators (for areas covered by the project after 8 years)	<ul style="list-style-type: none"> <li>10,000 ha of fast growing plantation established in private land</li> <li>5,000 landowners involved in establishing plantations</li> <li>Mean annual increment of 15 m<sup>3</sup>/ha for established plantations</li> <li>About 20% of plantation groups certified under W+</li> <li>An additional 2,500 private forests registered of which 25% are in women's names.</li> </ul>

### (a) Lead Government Agency

135. Government of Nepal's Department of Forests – at State and Municipality Level in the selected states would be the lead agency for the project and will provide technical assistance. Local NGOs and other service providers will provide social mobilisation, capacity and skills development aimed primarily at creating opportunities for IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor to become involved in plantation establishment and maintenance and in nursery production.

### (b) Problem Statement

136. Over the past decade, out-migration from rural areas has had a considerable impact on subsistence farming practices and social structures in Nepal's rural villages. Shortages of labour due to migration have considerably added to the work burden of those who remain in villages, especially women. In many situations this has led to abandonment of the least productive land – often rain-fed *bari* land used for growing maize. Problems relating to human-wildlife conflict (crop damage by monkeys and wild boar) have exacerbated this situation in some places. Abandoned or underutilised land will gradually revert back to forest through natural regeneration processes, but this would bring little benefit for landowners especially in the medium term.

137. At the same time Nepal is facing a shortage of softwood timber for manufacture of low-cost wood products such as furniture, interior construction and timber-boards of various kinds. This has to be imported to meet the growing demand from Nepal's rapidly urbanising population. Establishing plantations of mostly fast-growing tree species on such land can generate a substantial softwood resource within 10 years or so to meet this demand whilst at the same time generating incomes for landowners, providing environmental services (soil and water conservation) and creating jobs in rural areas.

### (c) Transformational Impact and Expected Co-benefits

138. The transformative effect of the project relates enabling private landowners to become the suppliers of a substantial proportion of Nepal's softwood requirements with finance for this investment coming mainly from the private sector. This will reduce pressure on natural forests and will generate environmental services for which opportunities for certification will be supported – especially for women's groups to give additional incomes for landowners.

139. The approach to establishing plantations is transformative. It is based on encouraging private investors to enter into leasing agreements with landowners or groups of landowners (including women's groups) for establishing and maintaining the fast-growing plantations on their underutilised or marginally productive agricultural land and sharing the benefits from future harvesting. FIP-IP investments will be used to supply subsidised seedlings, introduce innovative protection mechanisms involving fodder production combined with stall feeding and to subsidise establishment costs based on payment by results.

140. The project will contribute to enhancing Nepal's forest resource base by establishing 10,000 ha of plantation on privately owned land over 8 years – with fast growing but non-invasive tree species. This will reduce timber imports and increase Nepal's self-sufficiency in timber products. It will also capture 0.3 million tonnes CO<sub>2</sub> e over 8 years contributing to Nepal's NDC.

#### **(d) Project Description**

141. The project will support establishment of plantations of fast-growing tree species on underutilised private agricultural land in both the Hills and Terai targeting districts where such land is most extensive. During the project design stage, detailed feasibility studies of land availability and willingness of owners to establish plantations and will be undertaken prior to selecting actual districts, but it is expected this this will include both the Middle Hills and Terai in areas with high migration. Establishing productive plantations on land that is degraded or marginally productive for agriculture in rural areas where there are labour shortages will ensure more productive use of the land, contribute to local jobs and incomes and the forest sector's contribution to economic growth and will add to Nepal's carbon capture and its NDC commitments.

142. Project activities will include:

- i. Identifying, establishing and supporting landowner/farmer 'groups' for establishing blocks of fast-growing plantations<sup>33</sup> on under-utilised agricultural land and registering the land as private plantations (focusing on women's groups wherever possible)
- ii. Linking farmer groups with private investors through medium-term lease and buy-back agreements to attract capital to establish plantations
- iii. Subsidising plantation costs through performance-based payments for establishment and maintenance and insurance premium subsidies with additional incentives for particularly climate vulnerable areas e.g. along flood-prone river margins in the Terai
- iv. Linking plantation establishment with fodder and stall-feeding investments to reduce grazing damage
- v. Supporting women's groups for certification under recognised schemes e.g. W+ (on a pilot basis)<sup>34</sup>

---

<sup>33</sup> Potential species might include *Alnus nepalensis*, *Anthocephalus cadamba*, *Eucalyptus* spp. *Tectona grandis* and others depending on location and farmer preference. These are all non-invasive in Nepal and have been widely used in the past with good growth results

<sup>34</sup> The W+ Standard is a certification label that endorses projects that create increased social and economic benefits for women. It is an innovative framework to quantify and monetize the social capital created by women, to recognize and reward their contributions to sustainable environments and communities ([www.wplus.org](http://www.wplus.org))

- vi. Supporting private nursery production including capacity development on new technologies, development of seedling standards, quality assurance and technical assistance and buy-back arrangements
- vii. Capacity development for nursery and plantation technologies especially for IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor.

143. The project is based on analysis during FIP-IP preparation that suitable areas of underutilised and degraded land are available and that owners (sometimes absentee owners) are willing to establish fast growing trees whilst at the same time there is a huge demand for softwood to support furniture and wood product manufacturing industries and that private capital is available to invest in such plantations.

**(e) Implementation Readiness**

144. Nepal's Forest Policy (2015) already contains all the provisions necessary for supporting a programme of plantation establishment on private land. Under Policy 1 '*plantation programs will be conducted in private and public lands*' and under Policy 5, '*Technology, soft loans, grants and insurance will be arranged for the promotion of private forest, forest based enterprise and commercial nurseries*'. However, several factors will need to be analysed further (during project preparation) including developing a legal mechanism for enabling investors to enter into formal agreements with groups of landowners (or individual) under leasing arrangements to determine benefit sharing arrangements at the time of plantation harvest. In addition, detailed site-specific feasibility studies will be carried out to identify locations/villages where there are sufficient numbers of landowners willing to establish plantations on underutilised land to enable commercial-sized 'blocks' to be established that will benefit from economies of scale during establishment, protection and future harvesting.

145. The next step will be to produce a detailed project design document and implementation/financing plan and to seek formal approval from federal, state and municipalities on this. This will include baseline information and clarity on the project delivery modality.

**(f) Potential National and International Partners including their REDD+ financial support**

146. The project has less potential to attract co-finance from various other sources including international climate finance and bilateral and multi-lateral support mainly because the emphasis is on private land forest development (*Table 10*). However, private investment (stimulated by various incentives provided by the project) will represent a significant source of finance for this project (more than any other of the proposed projects) - *Table 15*. There are also opportunities to attract additional finance (albeit on a relatively small scale and on a pilot basis through the certification of women's groups under the W+ system).

**(g) Rationale for FIP Financing**

147. Despite the availability of timber resources in Nepal's natural forests, the manufacturing industry using timber for building, furniture and allied industries has a high demand for mainly softwood which cannot be readily sourced from local resources and is therefore imported. In areas where farmers already grow fast-growing softwoods in accessible locations e.g. *Alnus nepalensis* in eastern Nepal, there is a high demand for timber to supply plywood industries in the Terai. FIP-IP financing for the establishment of plantations on degraded and underutilised private land (abandoned agricultural land) will

encourage plantation creation that after 10 years or so will be able to substitute for imported softwoods and will generate the resources required by Nepal’s increasingly urban populations. Without FIP-IP finance it is unlikely that sufficient incentives can be generated to stimulate plantation establishment on the scale required.

148. In addition to the economic rationale for establishing productive fast-growing plantations, there are also environmental and socio-economic reasons. Plantations themselves represent a source of carbon capture that will contribute to fulfil Nepal’s NDC. They will also have considerable co-benefits in terms of environmental services for soil and water conservation. Pilots will be supported to certify groups of plantation owners under social certification schemes e.g. W+ (up to about 10% of the total area established) which have potential to generate additional revenue for women. Using additional incentives (described in the list of activities above) plantations will also be promoted in particularly vulnerable locations that will have adaptation benefits such as controlling floods and river bank erosion along river banks in the Terai. Finally, the establishment and maintenance of plantations is less labour intensive than agriculture especially on low productive land. Establishing plantations will therefore contribute to addressing time-poverty issues for rural women who otherwise have to engage in labour intensive agricultural crop production for limited benefit.

<b>USD million</b>			
<b>Total project finance required</b>	<b>FIP</b>		<b>Co-finance</b>
	<b>Grant</b>	<b>Loan</b>	
<b>10.7</b>	<b>0</b>	<b>6.0</b>	<b>4.7</b>

## Project 4: Enhanced Environmental Services Through Nature-Based Tourism

Project Summary	
Indicative FIP-IP resource allocation	USD 1,000,000
Geographical location	<ul style="list-style-type: none"> <li>Selected municipalities (pilots) with domestic/regional tourism potential (not in PAs) in E. Nepal and Mahabharat</li> </ul>
Transformational Impact	<ul style="list-style-type: none"> <li>System for planning and implementing nature-based tourism development with local municipalities demonstrated and replicable elsewhere</li> </ul>
Results Indicators (for areas covered by the project after 8 years)	<ul style="list-style-type: none"> <li>10 municipalities with locally developed area-based tourism plans in place</li> <li>% of CBFM group households benefitting from new diverse, nature-based tourism products in selected municipalities.</li> </ul>

### (a) Lead Government Agency

149. The lead agency for the project would be the local administrations in selected municipalities supported with technical assistance from their sectoral agencies covering forestry, agriculture, local development and others and with additional technical assistance if required. Local NGOs and other service providers will be used to provide social mobilisation, capacity and skills development services aimed primarily at creating opportunities for IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor to benefit from small-scale nature-based tourism development.

### (b) Problem Statement

150. Nature-based tourism development in Nepal has tended to be centred around national parks and protected areas. With the advent of a vastly improved road network especially between the India/Terai and locations in the Middle Hills, and with a growing middle class having vehicles to travel and resources to use for holidays, there has been a large increase in domestic tourism from within Nepal and from India. Many of these tourists aim to visit cooler and scenic destinations for short periods (weekends and holidays) especially during the hotter time of year. Numbers of such tourists are already increasing and Indian tourists in Nepal now represent the largest single group.

151. With the demand for accessible tourist destinations has come increasing pressure on forests and other natural resources from infrastructure development to cater for their needs e.g. building construction, water supplies, roads and parking facilities and accommodation. These are often concentrated in specific locations where development to cater for tourism needs is largely unplanned. At the same time, CBFM groups that manage the forest resources being used for by such tourists gain few, if any, benefits. The problem is therefore how to accommodate the numbers of tourists at these locations in a way that is both environmentally sustainable and that generates income opportunities for local people and CBFM groups especially for IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor.

### (c) Transformational Impact and Expected Co-benefits

152. The project will be a pilot with potential for replication and up-scaling. The transformative effect of the project is to bring together different sectors (agriculture, forest, infrastructure, local development) under the overall guidance of the municipality administration to support the development and implementation of sustainable local



tourism plans that enhance environmental conservation whilst at the same time providing facilities that tourists require and that bring income earning opportunities for local people especially for IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor. Forest areas in such municipalities are usually already being managed by CBFM groups – therefore these groups would be important stakeholders in planning for and implementing tourism activities. The project takes a similar model as is currently applied in national parks e.g. Annapurna Conservation Area and applies to selected pilot areas easily accessible for domestic and Indian tourists.

153. The project will tackle the ‘unplanned infrastructure development’ driver of deforestation and forest degradation where this is due to unplanned expansion of tourist facilities. It will conserve forests and other natural features from un-planned infrastructure development and will enable CBFM groups and their household members to generate new sources of revenue from tourism in a way that is replicable and has potential for scaling up in new areas. The project will directly benefit about 500 households through jobs and cash income opportunities from homestays in 10 locations and will protect approximately 5,000 ha of forest from unplanned infrastructure development activities associated with tourism resulting in about 0.03 million tonnes CO<sub>2</sub> e emissions reduction over 8 years.

#### **(d) Project Description**

154. The project will work closely with identified municipalities and CBFM groups in potential tourist ‘hot-spots’ planning and developing sustainable nature-based tourism facilities. This will be a pilot project working in only a few selected localities defined by their ease of road access for domestic and India-origin tourists and with attractive natural features e.g. cool climate, forest recreational areas, water features, scenic views etc. The project will support the planning processes to help conserve forests from unplanned infrastructure development and will create livelihoods and income-earning opportunities for CBFM groups and their member households from tourism.

155. Project activities will include:

- i. Area-based planning with municipalities and CBFM groups in identified new tourism areas (outside existing protected areas)
- ii. Supporting small-scale eco-friendly infrastructure e.g. toilets, car parking, water supplies, scenic trails, view-points, alternative energy, sustainable waste disposal, community halls, and homestay facilities etc. through CBFM groups
- iii. Marketing support for new tourism areas/municipalities with private sector tie-ups
- iv. Developing standards and registration processes for homestays (with local municipalities)
- v. Capacity development for eco-friendly homestay management (for women)
- vi. Capacity development for ancillary tourism services e.g. nature guides, handicrafts, cultural shows, music etc. with focus on IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor.
- vii. Promoting agricultural product production and sale to tourists e.g. organic fruit, vegetables from the adjacent area

#### **(e) Implementational Readiness**

156. The next step will be to produce a detailed project design document and implementation/financing plan and to seek formal approval from federal, state and municipalities on this. At this stage, no specific discussions have taken place with any identified municipalities that have potential or that are already experiencing tourism of the kind described here.

157. The next step will be to produce a detailed project design document and implementation/financing plan and to seek formal approval from federal, state and municipalities on this. This will include baseline information and clarity on the project delivery modality.

**(f) Potential National and International Partners including their REDD+ financial support**

158. The project has potential to attract co-finance some other external sources. IDA is in the early stages of developing a plan for supporting Nepal’s tourism sector and this component of nature-based tourism outside protected areas has potential to contribute to the wider results of this, especially in terms of catering for a different type of tourism (domestic and Indian) and exploring ways in which nature-based tourism can contribute to local economic development, jobs and incomes for local people in selected locations. As a pilot covering 10 municipalities, there is also potential for expansion to other areas in future.

**(g) Rationale for FIP Financing**

159. There is already evidence that in certain localities, unplanned infrastructure development that caters for domestic and Indian tourists is causing damage to the natural resources, including forests, that attract the tourists in the first place. Outside national parks and buffer zones there is very little control over such developments and numbers of these kinds of tourists will inevitably increase in future. The absence of local planning and the inability of local authorities to prepare and implement the provisions of such plans has been a constraint in the past. Under the new constitution, municipalities are now empowered to prepare local plans.

160. FIP-IP finance concentrated in a few selected locations will have a demonstration effect that will show how with proper planning and implementation involving local people and CBFM groups, sources of household income can be generated at the same time as forest protected. Without the FIP-IP financing resources will continue to be damaged and lost under the business as usual scenario.

USD million			
Total project finance required	FIP		Co-finance
	Grant	Loan	
1.3	0	1.0	0.3

## Project 5: Watershed management through innovative technologies

Project Summary	
<b>Indicative FIP-IP resource allocation</b>	USD 5,000,000
<b>Geographical location</b>	<ul style="list-style-type: none"> <li>Lower Sun Koshi/Dudh Koshi and Upper Gandaki Watershed (both with extensive areas of degraded forest) and both upstream of hydropower and infrastructure development</li> </ul>
<b>Transformational Impact</b>	<ul style="list-style-type: none"> <li>Use of innovative and intensively applied soil and water conservation technologies for <i>in situ</i> water retention and runoff reduction with planting of trees, shrubs, grasses and bamboos over extensive areas of degraded dryland forest in lower river valleys with potential for replication elsewhere and with downstream implications for hydropower and infrastructure</li> </ul>
<b>Results Indicators (for areas covered by the project after 8 years)</b>	<ul style="list-style-type: none"> <li>10,000 ha of degraded forest treated with extensive soil and water conservation combined with grass/tree/bamboo planting</li> <li>20,000 households (including at least 500 identified poor households) benefitting from treated areas through enhanced climate resilience, livelihoods enhancement, water source development, incomes and improved environmental services.</li> <li>Reduced downstream sedimentation</li> </ul>

### (a) Lead Government Agency

161. Government of Nepal's Department of Forests along with Department of Soil Conservation and Watershed Management – at State and Municipality Level in the proposed state would be the lead agency for the project with technical assistance also being provided by the Department of Livestock. One proposed location is for the Lower Sun Koshi and Dudh Koshi. Another similar river valley location such as the Kali Gandaki will also be identified. In both cases, these lie above proposed hydro-power generation sites. Local NGOs and other service providers and NGOs working through CBFM groups will provide social mobilisation, capacity and skills development aimed primarily at creating opportunities for IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor to become involved in plantation establishment watershed treatment.

### (b) Problem Statement

162. CBFM has been an active and priority programme under the government of Nepal for more than 25 years. During this time many areas that were handed over to community groups have recovered from their degraded condition and are now productive and healthy forests providing a range of forest products and services. Unfortunately, protection alone will not restore forests that are in highly degraded condition especially in the environmentally challenging environments of Nepal's lower river valleys which suffer from high temperatures, poor soils and water stress. These forests have changed little in their condition since they were handed over and the households dependent on them have not been able to benefit from them for enhancing their livelihoods to any significant level. Without intervention, these forests will remain degraded and unproductive and will contribute little to Nepal's REDD+ aims in terms of emissions reductions or co-benefits.

163. Traditionally such extensive, degraded areas were treated by tree planting but this has limited success usually due to insufficient resources and lack of effective protection and the hostile environment result in poor survival and growth of planted trees. Intensive

land-based investments in soil and water conservation combined with tree, grass and bamboo planting can restore these areas but the CBFM groups concerned lack resources to do this.

**(c) Transformational Impact and Expected Co-benefits**

164. The transformative effect of the project will be to pilot a model that combines intensive and coordinated inputs for forest development (plantations), soil and water conservation and fodder/livestock development over extensive areas managed by CBFM groups that otherwise will remain unproductive and generate few benefits for group members. Traditional technologies will be combined with best international practices in soil and water conservation including use of traditional technologies to maximise positive environmental and climate adaptation impact including reduction of downstream impacts. The successful treatment model will be extendable to the many other similar areas in Nepal (lower parts of large river valleys).

165. Other co-benefits for CBFM groups and household members (especially for disadvantaged *Majhi* communities in the target area) are more productive forest resources, improved environmental services especially for water supplies and soil conservation and greater livelihoods opportunities e.g. from fodder/livestock production and enhanced climate resilience and biodiversity conservation. The project also has carbon sequestration and emissions reduction benefits resulting from regeneration of degraded forest areas that will result in about 70,000 tonnes CO<sub>2</sub> e carbon capture over the 8-year project period.

**(d) Project Description**

166. The project will rehabilitate degraded dryland forest in a selected lower river valley location through intensive soil and water conservation and bioengineering treatments combined with plantation establishment and fodder development. One potential location for this pilot is the lower Sun Koshi/Dudh Koshi where there are suitable areas of forest already handed over to CBFM groups. Another river valley location will also be identified e.g. Upper Gandaki. Both these locations lie upstream of potential hydropower locations which will benefit from reduced siltation and water flow.

167. Project sub-components will include:

- i. Rehabilitating degraded forest under CBFM by a combination of plantation and intensive soil and water conservation technologies incorporating traditional plantation technologies linked to CC adaptation e.g. for water infiltration, runoff control and bioengineering using grasses, shrubs and bamboo
- ii. Supporting activities through CBFM groups using performance-based payments system
- iii. Supporting LHF groups and others with grass planting and livestock development with especially focus on targeted poor households
- iv. Capacity development for CBFM group members and government staff in appropriate soil and water conservation technologies
- v. Promoting seedling production (trees, grasses and bamboo) and supply through supporting locally established private nurseries
- vi. Fire management activities

**(e) Implementational Readiness**

168. In the first area selected for this pilot investment (lower valley of Sun Koshi and Dudh Koshi), much of the degraded forest area targeted for investment has already been

handed over to CBFM groups – mostly as community forest. In the proposed second location, the Kali Gandaki River Basin, the situation is similar. This will be confirmed during project preparation. During project preparation, CBFM groups will need to be involved in discussions about the future of their forest areas and the proposed investments. Capacity building will be required to strengthen their governance arrangements – especially for ensuring equity and social inclusion of the most disadvantaged household members. Further capacity development will be required for the municipalities covering these areas to plan for the implementation of the proposed activities and to develop robust working relationships with CBFM groups. If any forest areas remain that have not yet been handed over, consideration should be given to establishing LHF Groups that can be given assistance with fodder grass production and livestock via the Department of Livestock.

169. The innovative technologies that would be used for the land treatments, especially for soil and water conservation and retention of water in situ (by enhancing infiltration) are widely known and available although not necessarily in the proposed project areas. Technical assistance for transfer of appropriate technologies to CBFM groups who are carrying out the work will be required. This will be through Department of Soil Conservation and Watershed management representatives at local level possibly with additional support from NGO social mobilisers. Detailed planning for the project will also need to focus on seedlings (trees, shrubs, grasses and bamboos) and sources of these. A nursery will need to be established, or more distant source will need to be identified from where they can be transported.

170. The next step will be to produce a detailed project design document and implementation/financing plan and to seek formal approval from federal, state and municipalities on this. This will include baseline information and clarity on the project delivery modality.

**(f) Potential National and International Partners including their REDD+ financial support**

171. The project has potential to attract co-finance from various other sources including international climate finance and bilateral and multi-lateral support (Table 10). A Green Climate Fund (GCF) project is currently being developed by (by GoN/IUCN/NTNC) ‘Enhancing Climate Resilience of Vulnerable Communities and Ecosystems in the Gandaki River Basin’. In addition, potential WB/IDA Nepal country investments on infrastructure are closely linked with the two watersheds selected for this project – since both have existing potential for hydropower generation which would be critically affected by the watershed condition.

**(g) Rationale for FIP Financing**

172. Restoration of extensive degraded dry forest areas through these intensive soil and water and planting treatments is expensive on a per ha basis, but will contribute directly to Nepal’s NDC in terms of improving carbon sequestration, halting further degradation and reducing emissions. Using FIP-IP financing for this project is justified on the basis that no alternative sources of finance are currently available for treatment of degraded forest land on this scale (including from GoN sources). The demonstration effect which will result in a transformed landscape in the lower river valley will catalyse further similar investments in other areas in future.

173. In addition, the short, medium and long-term co-benefits of this investment are high. Forest adjacent communities will benefit immediately from job opportunities in implementing the soil and water conservation and planting operations. Typically,

communities in these locations, including the indigenous *Majhi* community that is classed as socially disadvantaged, have few alternative livelihoods opportunities for earning cash incomes. As the restored forest develops, there will be further income and livelihoods opportunities from fodder and livestock production. Such opportunities will be enhanced as road access improves. In the longer term, forest dependent communities and members of CBFM groups will benefit from enhanced environmental services – especially for water source conservation and soil stabilisation and conservation.

USD million			
Total project finance required	FIP		Co-finance
	Grant	Loan	
16.4	2.1	2.9	11.4

## Safeguards

174. Nepal's FIP-IP and the five proposed projects will be implemented to comply fully with the safeguards required by the World Bank and Government of Nepal. This includes the safeguards specified in '*Guidance and safeguards for policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries*' of Annex 1 of UNFCCC, (2010)<sup>35</sup>.

175. Specifically, this states that when undertaking the following REDD+ implementation activities safeguards should be promoted and supported:

- Reducing emissions from deforestation;
- Reducing emissions from forest degradation;
- Conservation of forest carbon stocks;
- Sustainable management of forests;
- Enhancement of forest carbon stocks;

176. Consequently, the following safeguards have been built into the FIP-IP design taken from the same UNFCCC commitments to which Nepal is a signatory:

- i. That actions complement or are consistent with the objectives of national forest programmes and relevant international conventions and agreements;
- ii. Transparent and effective national forest governance structures, taking into account national legislation and sovereignty;
- iii. Respect for the knowledge and rights of indigenous peoples and members of local communities, by taking into account relevant international obligations, national circumstances and laws, and noting that the United Nations General Assembly has adopted the United Nations Declaration on the Rights of Indigenous Peoples;
- iv. The full and effective participation of relevant stakeholders, in particular indigenous peoples and local communities, in the actions referred to in paragraphs 70 and 72 of this decision;

<sup>35</sup> UNFCCC (2011) Report of the Conference of the Parties on its sixteenth sessions held in Cancun from 29 November to 10 December 2010. Part 2: Action taken by the Conference of the Parties Appendix 1.

- v. That actions are consistent with the conservation of natural forests and biological diversity, ensuring that the actions referred to in paragraph 70 of this decision are not used for the conversion of natural forests, but are instead used to incentivize the protection and conservation of natural forests and their ecosystem services, and to enhance other social and environmental benefits
  - vi. Actions to address the risks of reversals;
  - vii. Actions to reduce displacement of emissions.
177. During project preparation for the five proposed investment projects, an Environmental and Social Management Framework (ESMF) will be prepared following national and international standards and requirements for safeguards (including the requirements of the World Bank and UNFCCC). This will assess the likely environmental and social impacts of the proposed investment projects and will identify risks and mitigation measures to be incorporated to avoid negative impacts. The ESMF also provides the framework for managing and monitoring these risks and impacts and will identify any requirements for conducting environmental and social impact assessments. Satisfactory completion of the ESMF and any associated actions will be a prerequisite for endorsement of the proposed investment projects before implementation can proceed.
178. A Strategic Environmental and Social Assessment (SESA) Report was prepared in 2014 as part of Nepal's REDD+ readiness process<sup>36</sup>. This identifies a number of risks and mitigation measures that need to be in place to ensure Nepal's REDD readiness. At the time of its preparation, the draft REDD+ Strategy had not been prepared. However, the report contains a number of areas relevant to Nepal's FIP-IP including
179. A risk assessment matrix has been included in Section 7 of this document covering the broad risks identified at program level. This identifies a number of socio-economic, environmental and other risks associated with REDD+ implementation and provides a framework for measures that will mitigate negative impacts and enhance the environmental and social benefits of REDD+ actions. This framework identifies a number of areas relevant for Nepal's FIP-IP which although closely associated with REDD+ does not cover the same proposed actions. Based on the SESA, preparation of the five proposed investment projects will incorporate the following measures to ensure that potential risks are completely avoided:
- **Involuntary resettlement.** None will take place as a result of FIP-IP implementation
  - **IPs.** All projects will be designed to ensure that IPs are fully involved in their design and implementation of FIP-IP and that benefits such as employment and livelihoods opportunities are specifically targeted for IPs (along with other disadvantaged groups including women, *Dalits*, *Madhesis* and poor forest dependent people). DGM funds (Annex 3) will also be used to build capacities amongst such groups to enable them to become fully engaged at different levels.
  - **Physical and cultural resources.** No negative impacts on such resources will take place. Under Project 4 project resources may be utilised to ensure their conservation and sustainable use.
  - **Use of hazardous chemicals and pesticides.** In the event that any such chemicals are likely to be utilised e.g. for timber-based enterprises involving timber treatment, their use and correct disposal will follow national and international standards and

---

<sup>36</sup> Strategic Environmental and Social Assessment Report (2014) Prepared for REDD IC under contract No. FCPF/REDD/S/QCBS-5

procedures and will be closely monitoring to ensure no negative environmental or social effects.

- **Natural habitats.** It is not anticipated that any of the proposed investment projects will be implemented inside protected areas. Potential negative effects such as risks from invasive species or from environmental deterioration will be avoided completely through careful species selection for planting (e.g. known species with no invasive characteristics).

180. Preparation of the five proposed investment projects will include the development of detailed feedback and grievance redress mechanisms (FGRM) for each project tailored to the specific requirements and contexts of each project. As far as possible, this will be aligned with existing mechanisms for the forestry sector in Nepal, including those developed for REDD+ implementation<sup>37</sup>. All project activities will be implemented through CBFM groups which normally have such procedures in place e.g. for public hearings and public audits. Where appropriate, such mechanisms will be improved and strengthened with support from FIP-IP and/or DGM funds.

## Project Preparation Timetable

*Table 19: FIP Investment Projects - Indicative project preparation timetable.*

Stage	Responsibility	Indicative time
FIP sub-committee approval for whole FIP-IP	FIP sub-committee	December 2017
Project preparation (detailed design and baseline information)	Procurement for detailed design and baseline studies Project document preparation including local consultations	June 2018
Approval of each project	By federal, state and municipalities covered by projects	August 2018
FIP sub-committee	Submit request for project approval (FIP-IP investment portfolio with all 5 projects)	September 2018
Procurement for project implementation	GoN (federal) level	November 2018
Project implementation	By identified implementation agencies	Late 2018

### Request for Project Preparation Grant

181. A project preparation grant is requested for preparation of all five projects. Project preparation costs will include the preparation of five detailed project documents and collection of baseline information for each project. The preparation process will build on the consultative process started for FIP-IP (Annex 2) but will focus exclusively in the identified project areas as shown in the project descriptions (Annex 1). Detailed stakeholder consultations – especially with concerned local governments and communities will be required during the detailed preparation process to ensure their

<sup>37</sup> REDD IC (2015) Developing a Feedback and Grievance Redress Mechanism for REDD+ Implementation in Nepal



ownership and commitment to the projects being implemented in their areas and to ensure cross-sectoral collaboration where this is required.

182. Although project preparation will differ according to the nature of the actual project, each will entail a focus on some common areas of activity:

- i. Consultation with IP's and communities including women, *Dalits*, *Madhesis* and forest dependent poor households
- ii. Identification of capacity needs – particularly in relation to the institutional capacity of local level bodies (municipalities) that will be addressed by the project
- iii. Collection and analysis of baseline information (differing for each project) that will be used as the basis for project results monitoring over the implementation period
- iv. Linkages with the capacity development activities being proposed under the DGM
- v. Technical inputs to ensure that projects represent best-practice and experience from Nepal and elsewhere
- vi. Completion of the ESMF for each proposed project
- vii. Collaboration with on-going or upcoming projects financed by different development partners
- viii. Identifying actions and consultations that need to take place to address constraints in the policy and regulatory environment for each project (as described in Annex 1)

## Annex 2: Stakeholder involvement plan

183. This Annex describes the process for stakeholder consultation that was used during preparation of FIP-IP, summarises the main lessons learnt and issues/opportunities raised and outlines the consultative process that will be used for detailed design of the five proposed investment projects.

### Consultation During FIP-IP Preparation

184. Preparation of the FIP-IP involved a national consultative process during the period June-October 2017, that aimed to raise awareness amongst different stakeholder and interest groups about FIP-IP and sought their inputs and suggestions including identification of their areas of concern and their perceptions of opportunities in the forestry sector for FIP-IP. To do this, a series of national, state-level and local-level consultations and workshops was conducted as well as interviews with key experts and individuals. Different consultation events were held in 17 districts with a total of 1,042 participants. Based on earlier analysis of national-level stakeholder consultations in Nepal<sup>38</sup>, attempts were made to improve the design of the consultative process to identify new and more effective means of reaching a larger number of people including the use of workshops, focus groups discussions and key informant interviews whilst taking into account the relatively limited time period and resources available. Some of the newer tools, especially the use of focus group discussions with specific stakeholder groups were found to be quite effective. A total of 1,042 people was involved in the consultation. Breakdown of numbers of participants by gender, ethnicity and occupation is shown in *Table 20* and *Table 21*.

185. The National-level inception workshop and final consultation workshop were organized by REDD IC and involved forestry sector stakeholders including both government and non-government representatives from MoFSC, National Planning Commission, NTNC, WWF Nepal, Civil Society Organizations (CSOs) and federations such as NEFIN, FECOFUN, ACOFUN, NAFAN, HIMAWANTI and DANAR as well as the media.

186. Small groups of people representing a single stakeholder group participated in 12 focus group discussions held at national level. It was felt that the different opinions and concerns of certain stakeholder groups would not be effectively heard if their participation were limited to larger workshop. A total of 49 focus group discussions with 506 people, were therefore used to solicit opinions separately with the participation of 45 representatives from government at state and federal level, 55 from municipalities, 267 from forest-dependent communities, 80 from civil society, 57 from the private sector and 2 from the media. Among the participants, 183 and 76 participants attended from IP and *Dalit* communities, respectively.

187. Seven state level workshops were conducted targeting a range of stakeholders with different interests in the forestry sector. A total of 286 individuals participated including from GoN institutions such as MoFSC, District Agricultural Development Office and District Livestock Service Office; elected officials at Municipality level; representatives of FECOFUN, ACOFUN and BZ-FUGs; *Women, Dalits, IPs* marginalized people; service providers including field based projects, NGOs having experience in natural resources, the private sector and the media.

---

<sup>38</sup> E.g. Bastakoti R & Davidsen C (2015) Nepal's REDD+ Readiness Preparation and Multi-Stakeholder Consultation Challenges, *Journal of Forest and Livelihood* 13(1) May, 2015

Figure 14: FIP-IP Consultation locations

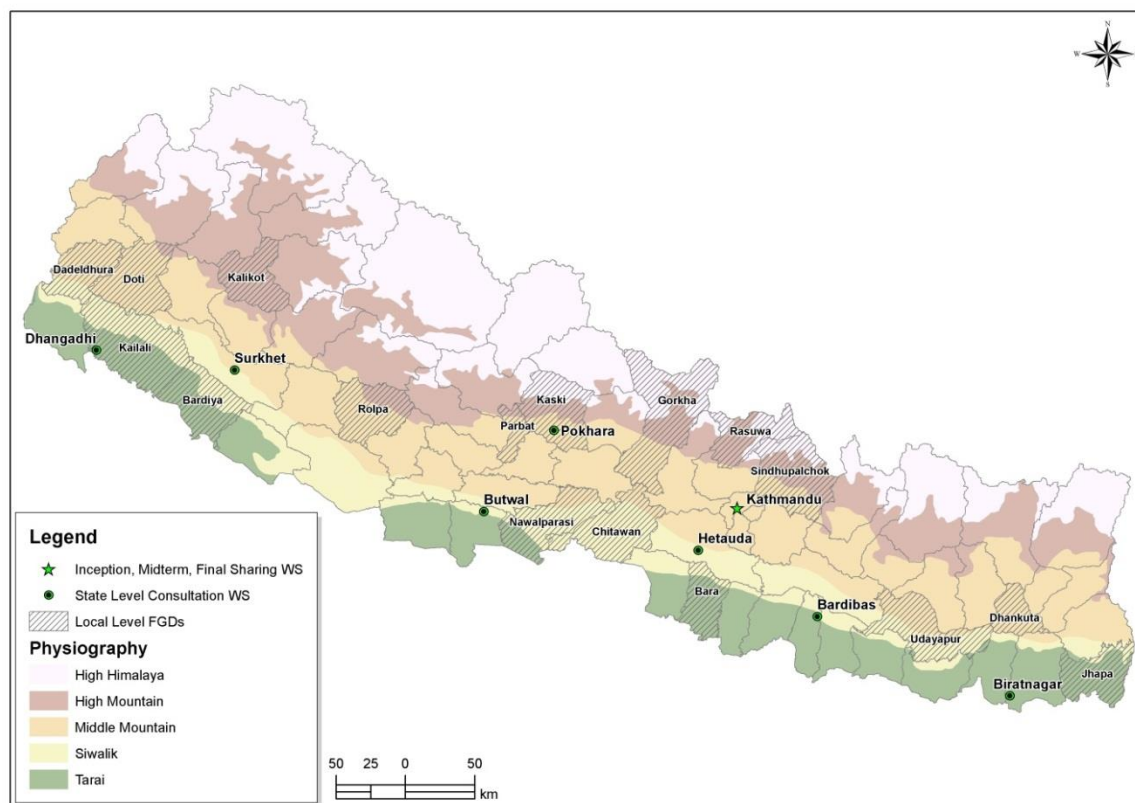


Table 20: Consultation participants by gender and ethnicity

	No. of participants	Women	Dalit	Madhesi	IPs
National level w/shops	118	21%	3%	3%	23%
State level w/shops	287	13%	7%	13%	21%
Focus group discussions	606	32%	14%	3%	36%
Key informant interviews	31	6%	0%	3%	19%
<b>Total</b>	<b>1,042</b>	<b>25%</b>	<b>10%</b>	<b>6%</b>	<b>30%</b>

Table 21: Consultation participants by occupation/stakeholder category

	No. of participants	Government (all levels)	Private sector	Civil society (incl. media and academia)	Forest dependent community
National level w/shops	118	49%	3%	52%	0%
State level w/shops	287	55%	9%	28%	6%
Focus group discussions	606	10%	10%	26%	45%
Key informant interviews	31	58%	16%	24%	10%
<b>Total</b>	<b>1,042</b>	<b>34%</b>	<b>9%</b>	<b>30%</b>	<b>28%</b>

188. Key informant interviews/expert consultations were used to dig out valuable insights and priorities in the forestry sector from individuals working in various fields. In all, 31 individuals were consulted during consultations, including forestry experts, government officials, indigenous people, project staff, Dalits, bankers, entrepreneurs and representatives of development partners.

189. Three FIP-IP steering committee meetings were conducted to seek formal endorsement of consultation plans, for sharing preliminary findings getting further suggestions and finally for seeking endorsement of the draft FIP-IP document.

### **Issues and opportunities raised during FIP-IP consultation**

190. This section summarises the key issues and opportunities that were raised during the consultations in several categories.

#### **Reducing deforestation and degradation**

##### **Issues**

- Forest Fire
- Encroachment – institutional e.g. school, medical college, illegal settlements inside/nearby the forest, public land. Political pressure is the main cause for encroachment
- Over and uncontrolled grazing. Free grazing has trampling effects, which discourages regeneration.
- Infrastructure development e.g. road inside the forest
- Landslide
- Illegal/unmanaged harvesting. Unmanaged/improper collection of fodder, resin
- Infrastructure demand after earthquake 2015
- New invasive species, pest and diseases in the forest

##### **Opportunities**

- Landscape restoration through mass plantation - abandoned river bank, public land, waste land/ abandoned land in mid hill/private land
- Improved Livestock and grazing management
- Promotion of agroforestry

#### **Forest conservation and management**

##### **Issues**

- Local people cannot give full time in CF because of volunteer work in CF and need to engage in other livelihoods activities
- Private forests are supplying more and regenerating less. This may have adverse impacts in future. Private forest owners are not active because there is a complex process to sell forest products. Simplification of process may encourage farmers to regenerate. This may also increase profit to farmers.
- High engagement of timber contractors (*thekedars*) in forest extraction etc. e.g. “Forest is an open bank – whenever in need of money one goes to harvest the forest products/trees”.
- Forest utilization part is lacking in existing forest management e.g. by CBFM groups.
- Human-Wildlife conflict from monkey, wild boar, deer, porcupine is an increasingly important issue. Due to protection-oriented forest management, buffer zones have extended habitat for wild animals, which then damage property, agriculture and then affect subsistence livelihoods.
- Less management cost/operational cost for DFO

- Boundary conflict, traditional use right vs CF
- Distance users of CF (time required to reach forest)
- Limited access or no access of dead standing or fallen branches of trees from national park for proximate community use
- Abandonment of private land because of migration
- CF income is invested in community development rather than forest conservation/management
- Existing scientific forest management– focus on harvesting but not prioritizing rehabilitation of the degraded area

### **Opportunities**

- Promotion of agroforestry
- Develop the mechanism to establish the scientific/sustainable forest management/Effective mobilisation of forestry bureaucracy in the plan preparation and implementation for SFM

### **Governance & capacity development**

#### **Issues**

- Conflicting policy
- Difference in understanding on forestry and REDD+ issues among facilitators and lack of coordination between service providers has created confusion at local level
- Limited skill and confidence on sustainable/scientific forest management,
- Limited social skills and capacities of both government and non-governmental institutions
- Community people have limited knowledge on REDD+ and carbon trade
- Local NGOs are not effective; they provide just allowance (*bhatta*) and they work for targeted periods and areas
- Single person attend multiple meetings, trainings and knowledge is not transferred at the local level
- Training manuals and materials prepared at central level are not effective for the local level/ Lack of pretested training manuals imposed centrally
- Local government elected representatives lack capacity to work in the present context
- Resource duplication. e.g. NGO work in overlapping areas
- Governance of local communities and potential conflicts over resources between state, local government and CBFM groups

#### **Opportunities**

- Enhancement of social entrepreneurship capacities and skills of institutions (govt. and non-governmental) to engage particularly with poor and marginalized men and women in forestry
- Improvement of forest sector regulatory framework
- Forest sector governance improvement and strengthening of forestry institutions- state and local level
- Develop the mechanism to establish the scientific/sustainable forest management/Effective mobilisation of forestry bureaucracy in the plan preparation and implementation for SFM

- Capacity build-up of local elected body

## **Gender, equity and social inclusion**

### **Issues**

- Though women are in decision making positions according the provisions of different CBFM models (e.g. 50 % women in executive committee of CF where at least one decisive position (either chair or general secretary) should be held by a women, women are unable to influence decisions and groups are still men dominated
- Due to intensive engagement in unpaid care work of women in household chores and day to day engagement in forest management, women are unable to participate meaningfully and access knowledge and resources (financial and technical)
- Male out-migration (more women in villages) created workload for women
- Local community people, IP's- particularly the minority and endangered groups such as Hayu's and Rajis, Terai Dalits such as Maji, Bote, Mushar have limited access to forestry related technical skills and financial support.
- In some case, Dalits are deprived to be members of nearby CF.
- Poor and excluded people have limited participation and are less aware about the opportunities because of their struggle for survival (livelihoods)
- Strong and strategic women CFUG leaders – however majority of them found to be highly engaged in the project's and DFOs activities and also capturing the benefits, particularly exposure visits, invitation to meetings and information/knowledge regarding benefits etc. (e.g. recipients of multiple benefits).
- Women and disadvantages people lacks the policy level awareness

### **Opportunities**

- Awareness raising and training to the community people focusing on women and disadvantages people
- Economic empowerment of the women and disadvantages people by creating job at the local level
- Vocational/skill based training to the users particularly poor, women and disadvantages people and thereby develop the system of accreditation so that these people can get job

## Enhancing forest-based economic growth

### Issues

- Protection/conservation oriented forest management,
- Lack of product innovation in forestry
- Lack of sustainability of the initiation/ Lack of the upscaling of the good practices e.g. Duna/Tappari enterprise supported by MSFP in Doti
- Contractor's nexus cause less price of timber from CBFM. Tender policy of government seems problematic
- Syndicate system in timber auction process- decrease the benefit to local communities
- Limited technology and machineries for improved wood technologies, government does not have priority for wood technology and innovation. Similarly, limited technical tools and equipment to harvest the economically viable forest products such as Sibokthorn, Timur, Rattan
- Small scale income generating support activities – can't give full employment hence they tend to fail.
- Less clarity and orientation on forest policies, guidelines etc. Legal barrier for forest based enterprise promotion,
- Annual allowable harvest vs dead and dying trees in community forest. Many dead and dying trees are decaying in the forest due to such controversies.
- Lack of guarantee of continuous supply of raw materials to enterprises. Government cannot provide timber continuously due to auction system
- Tedious process /legal and procedural complexity of forest product harvesting, transportation and trade
- Government's lack of trust on timber entrepreneur. Government can accept the investment-loan/donation from the donor but not from the timber industry. This sector can invest in forestry sector but government has fear of failure. Public image/perception of the people towards timber industry is not good. State doesn't consider industry to timber
- Less priority of financial institution e.g. Bank to invest in forestry related business
- Inadequate support to develop private forestry such as insurance, soft loan, and technical assistance

### Opportunities

- Improved wood technologies and product innovation - seasoning, treatment, dust board, particle board, bamboo housing materials
- Improvement in forest sector regulatory framework
- Vocational/skill based training for poor, women and disadvantaged people can develop a system for accreditation so that they can get jobs. These people otherwise have limited chances to become entrepreneurs

### Lessons learnt from FIP-IP consultation

191. A key lesson learned from the FIP-IP consultation process was that focus group discussions do provide an opportunity to engage with stakeholders that is an improvement over their participation in larger workshops/forums. Focus group discussions are easy to manage and organise, homogenous ideas can be easily accommodated and are an effective way for normally voiceless to be heard e.g. *Dalits*, women. However, during the organisation of focus groups it can be challenging to ensure that real grass-roots voices are heard and that genuine grass-roots level participants are invited.

192. Similarly, key informant interviews are an effective tool for engaging people who otherwise could not contribute significantly during workshops e.g. if they did not have to participate. They provide opportunities to solicit specific views about important issues as they arise in the consultation process and there is a need to be flexible to ensure that opportunities to hold key informant interviews are grasped whenever the opportunity arises.

193. A common issue during consultations was that it is difficult to identify and involve private sector individuals at all levels. Key informant interviews can be very valuable, but there is no easy institutional representation of the private sector in forestry so simply inviting organisations to workshops may miss important and very experienced individuals. It was also found difficult to involve locally elected officials at municipality level – mainly because the election process was ongoing at the time of the consultations. It was found that workshops at state level were more use as a tool for creating awareness and getting broad feedback – rather than getting more specific ideas and it was almost impossible to ensure that real grass-roots stakeholder were involved at this level.

### Dissemination and Preparation of individual projects

194. After completing the draft FIP-IP, an awareness-raising and dissemination process will be conducted at all levels. The aim of this is to raise awareness about FIP-IP amongst key stakeholder groups - especially in the geographical areas proposed for the five projects. implementation

195. After the FIP-IP has been endorsed by the FIP sub-committee, detailed project preparation will begin as described in Annex 1. The key stakeholder and right-holder groups that will be involved in this are shown in *Table 22*. Various tools and approaches will be used for this detailed consultation in the proposed project areas and for dissemination and awareness raising including:

- Workshops and meetings
- Local FM radio and media articles
- Public hearings at municipality and ward levels in the selected project implementation areas
- Document translation into local languages
- Posters, leaflets, handouts and flipcharts (in local languages)
- Social media

**Table 22: Key Stakeholders and rightholders for the five proposed investment projects**

<b>Nepal Forest Investment Plan: “Investing in Forests for Prosperity at a Time of Political Change”</b>	
<b>Project</b>	<b>Key stakeholder/right-holder groups</b>
<b>Project 1</b> Sustainable forest management through CBFM	<ul style="list-style-type: none"> <li>• CBFM group members and executive committees (Terai and Chure)</li> <li>• Elected leaders of municipalities (Terai and Chure)</li> <li>• IP, women, <i>Dalits and Madhesi</i> group representatives</li> <li>• Government officials (forestry sector) at municipality and state levels</li> <li>• Local NGOs (working in forestry sector) in Terai and Chure</li> </ul>
<b>Project 2</b> Forest management for a forest-based economy	<ul style="list-style-type: none"> <li>• CBFM group members and executive committees (in 2 areas selected)</li> <li>• Elected leaders of municipalities (in areas selected)</li> <li>• IP, women, <i>Dalits and Madhesi</i> group representatives (in 2 areas selected)</li> <li>• Government officials (forestry sector) at municipality and state levels</li> <li>• Private entrepreneurs (in project areas and Kathmandu)</li> <li>• Banks and Financial Institutions (at state level and in Kathmandu)</li> <li>• Federal government esp. Ministry of Finance and MoFSC</li> </ul>
<b>Project 3</b>	<ul style="list-style-type: none"> <li>• Landowners and farmers (in potential hills and Terai districts)</li> </ul>



Private land forest development	<ul style="list-style-type: none"> <li>• Elected leaders of municipalities (in 2 areas selected)</li> <li>• IP, women, <i>Dalits and Madhesi</i> group representatives (in potential hills and Terai districts)</li> <li>• Government officials (forestry sector) at municipality and state levels</li> <li>• Private investors (in project areas and Kathmandu)</li> <li>• Federal government esp. Ministry of Finance and MoFSC</li> </ul>
<b>Project 4</b> Enhanced environmental services through nature-based tourism	<ul style="list-style-type: none"> <li>• CBFM group members in pilot municipalities selected for tourism potential</li> <li>• Elected leaders of selected municipalities</li> <li>• IP, women, <i>Dalits and Madhesi</i> group representatives in selected municipalities</li> <li>• Government officials (forestry sector and tourism sector) at municipality and state levels</li> </ul>
<b>Project 5</b> Integrated conservation and management of watersheds	<ul style="list-style-type: none"> <li>• CBFM group members and executive committees (in lower Sun Koshi/Dudh Koshi River area and Upper kali Gandaki River area)</li> <li>• Elected leaders of municipalities covered</li> <li>• IP, women, <i>Dalits and Madhesi</i> group representatives in municipalities covered</li> <li>• Government officials (forestry sector and livestock) at municipality and state levels</li> <li>• Local NGOs (working in forestry sector) in municipalities covered</li> </ul>

196. Preparation of five investment projects will follow a formal procurement process under GoN procurement rules with close collaboration with REDD IC and World Bank (Kathmandu)

- i. Development of ToR for detailed project preparation
- ii. Selection of 5 national service providers for project preparation through national level procurement process (with international/regional backstopping if possible). May be possible to group some projects.
- iii. Focused consultation using participatory tools at village and municipality level with stakeholders identified in *Table 22*
- iv. Meetings with state and local government and at federal level with MoFSC and other key ministries including Ministry of Finance.
- v. National level coordination via MoFSC (amongst 5 service providers) via FIP steering committee for review and endorsement
- vi. Description of implementation arrangements for each project
- vii. Prepare project documents (by national service providers)
- viii. Endorsement of individual projects by steering committee and by World Bank (Nepal Office)

## Annex 3: Dedicated Grant Mechanism for Indigenous Peoples: Funding and Implementation Plan

### Annex 3.1: Background

197. There is a strong inter-relationship between bio-cultural systems, customary and sustainable use of forest and traditional knowledge of IPs and local communities in Nepal. Nepal has established CBFM under national laws which also support the secured rights of IPs and local communities over forest resources.

198. Nepal is a socio-culturally diverse country. There are 125 caste and ethnic groups in the country of which 59 are ethnic groups categorised as (37%) Indigenous Peoples<sup>39</sup> and there are 26 castes (about 13%)<sup>40</sup> which are classed as *Dalit*<sup>41</sup> (CBS, 2011; CBS, 2014). Despite the provisions of legislation governing the forestry sector and despite the provisions of international laws and agreements to which Nepal is a committed party, e.g. Convention on Biodiversity (CBD), ILO 169, UNDRIP etc. IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor in Nepali society continue to be marginalised in the forestry sector in terms of their representation in CBFM groups and in the forestry sector more widely, their access to natural resources, involvement in decision-making and leadership and equitable benefit sharing.

199. Recognising this, the FIP supports a special grant, the Dedicated Grant Mechanism (DGM) which is separate from the FIP-IP which aims to enhance the capacity of IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor to fully engage with and benefit from the investment projects identified in the FIP-IP. The FIP-IP and DGM are mutually supportive of each other and complementary in outcomes (Figure 15).

200. This Annex outlines how the plan for the DGM is expected to develop and be implemented. Critically, the design and implementation of the DGM will be done by IPs and local communities in collaboration with government and other agencies implementing FIP-IP to ensure that together they achieve the broader objective of FIP-IP i.e. 'Investing in Forests for Prosperity at a Time of Political Transformation'.

201. A grant of USD 4.5 million will be available to implement the plan for DGM on endorsement of the FIP-IP

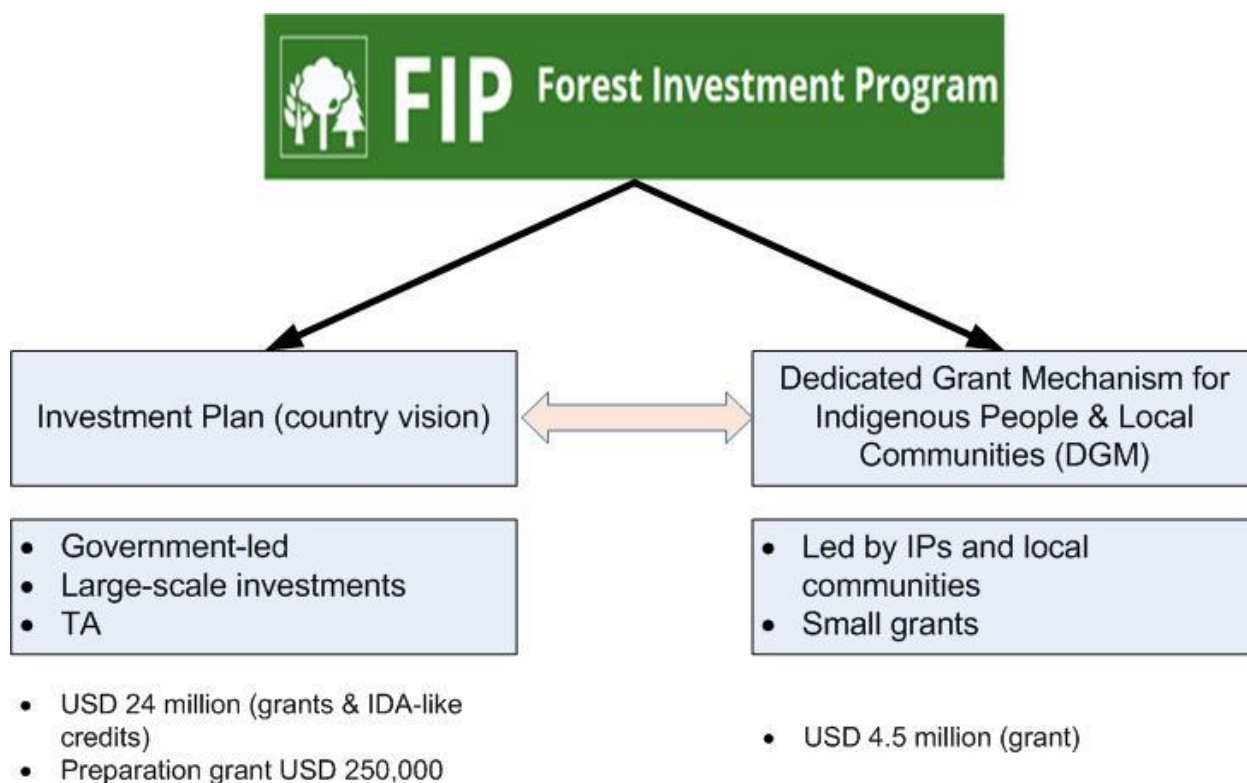
---

<sup>39</sup> 59 Indigenous Peoples (Adibasi Janjati - Indigenous Nationalities) have been legally listed and recognized under annex-1 of National Foundation for Development of Indigenous Nationalities (NFDIN), Act 2002

<sup>40</sup> Government of Nepal, National Dalit Commission, <http://ndc.gov.np/np/cms/4>

<sup>41</sup> *Dalit* are known as socially marginalized groups of the people due to social discrimination based on the social class and cast system which has been legally abolished in 1963.

Figure 15: Relationship between FIP and DGM



### Annex 3.2: DGM Objectives

202. The wider objective of the DGM implementation plan is to strengthen the capacity of IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor to participate fully in the FIP-IP and other REDD+ programs at local, state and national levels in Nepal and to enable FIP-IP to bring prosperity and peace from these forestry sector investments. Specific objectives of the DGM implementation plan are:

- To strengthen the governance and institutional capacities of individuals and representative institutions of IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor, especially at local level
- To enhance positive impacts (such as securing rights and livelihoods) for IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor from forest-related activities
- To enhance the working environment between IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor and local level institutions including municipalities and NGOs service providers.
- To support the establishment accountability mechanisms within FIP-IP to ensure that the program is fully responsive and sensitive to issues and opportunities for IPs and local communities including women, *Dalits*, *Madhesis* and forest dependent poor.

### Annex 3.3: DGM Governance Mechanism

203. During discussions with their representative organizations, government agencies and other relevant stakeholders covering different options and modalities for DGM governance, the following governance structure is proposed:

204. **Formation of Interim DGM committee:** With the initiation of NEFIN and FECOFUN, an informal contact point for DGM preparedness was established in 2015 as a temporary

measure. Based on preliminary discussions with REDD IC, World Bank and other relevant organizations it was decided that representative organizations of IPs and local communities would use their existing platforms for the formation and operation of interim DGM committee arrangements. The GoN would facilitate the establishment and operation of this interim DGM committee and the Interim DGM committee would ensure social inclusion and a gender balance in its membership.

205. **Establishment of National Steering Committee (NSC).** The interim DGM Committee will lead the establishment of the NSC through a consultative and participatory process with the full and effective participation of IPs, local communities and their representative organizations including women's groups and *Dalits, Madhesis* and others. The NSC will be the authentic and responsible body for the decision-making process and effective implementation of the DGM implementation plan with the support of a National Executing Agency and working through IPs and local communities at local level.

206. Members of the NSC will be selected through consensus between identified representative organizations of IPs and local communities. The REDD IC will maintain an authentic list of identified representative organizations of IPs and local communities taking into account the national context, policies, legislation and socio-cultural and bio-cultural diversity of the country. If there is lack of consensus in selecting NSC members, a self-nomination process among IPs and local communities will be applied with a guideline developed and used to define the process of self-nomination. The NSC must be established before a National Executing Agency (NEA) can be selected and the DGM plan fully prepared. Responsibilities of the NSC include:

- To provide oversight of DGM
- To determine the eligibility criteria for funding – in alignment with the DGM Guidelines and based on 'no-objection' from World Bank
- To review and make funding decisions on eligible project proposals
- To report to the global DGM Global Steering Committee on national activities on a semi-annual basis
- To select the National Executing Agency

207. **Selection of National Executing Agency (NEA).** NSC, in consultation with REDD IC and FIP World Bank team will put in place a competitive process for the selection of the NEA to implement the DGM plan. The process will follow the DGM Design Document, DGM Operational Guidelines (2013) and the DGM Program Documents which form the basic guidance documents for implementation of DGM at national and local levels.

208. The NSC will prepare a ToR for the NEA with inputs from REDD IC and World Bank team and based on the mandatory fiduciary qualifications. The REDD IC will not be involved in NEA selection, but REDD IC and the World Bank team will approve the final selection of NEA.

209. The roles and responsibilities of the NEA will be:

- To be responsible for DGM project execution including disbursements to grantees as per grant agreement with the World Bank
- To be responsible for oversight, reporting, fiduciary and environmental and social safeguards per World Bank policies and national policies on safeguards
- To provide a monitoring and supervision function for projects being implemented under DGM

- To report to the REDD IC and World Bank on the allocation and use of DGM funds
- To serve as a secretariat to the NSC
- To provide information and assistance as needed to grantees
- To prepare information for and coordinated with the Global Executing Agency
- To prepare the DGM project document (after FIP-IP has been endorsed by the FIP sub-committee)

210. **Implementation Modality.** The NEA will issue regular calls for proposals complementary to FIP-IP investments for implementation under the DGM project. Based on proposals received NEA will screen and select those that meet the DGM objectives in accordance with the DGM Nepal project document. If necessary, the NEA will provide additional capacity support to organisations representing IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor to enable them to prepare high quality proposals. Approved proposals will then be implemented on the basis of a contractual arrangement between the NEA and the selected proponents.

211. The role of local and state government in both planning and implementing for the FIP-IP and the DGM is critical. NSC and NEA will collaborate with local level and state governments and with relevant government agencies such as REDD IC during the processes for issuing calls for proposals under the DGM for supporting FIP-IP investments and during their implementation.

#### **Annex 3.4 Indicative activities under the DGM implementation plan**

212. The FIP-IP proposes 5 investment projects (*Table 23*) that will increase production and productivity of forests, reduce emissions and provide a range of co-benefits. For each project, proposed activities under FIP-IP require full and effective participation of the IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor. Moreover, activities under FIP-IP projects should enhance positive impacts and reduce risks of negative impacts for IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor.

213. During the FIP-IP consultative process, a diverse range of possible activities was identified. These are summarised in *Table 23*. Note that at this stage this comprises a list of indicative activities only, and the list will need to be revisited and modified during the preparation of the DGM project. At that stage, it will be possible to assess the capacity needs of IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor to ensure their enhanced engagement with each of the FIP-IP projects in detail. *Table 23* includes capacity development activities specifically linked with the five proposed FIP-IP investment projects. In addition, there are a range of IP and local community capacity development actions that will be applied across all projects including knowledge management, awareness raising, and governance strengthening.

214. There is a strong link between the FIP-IP and the capacity building approach of the DGM. The DGM-supported activities will ensure the engagement of IPs and local communities including women, *Dalits*, *Madhesis* and other forest dependent poor within the FIP-IP and will build capacities and generate information to strengthen implementation of the investment projects. There is a possibility of co-financing for a number of the indicative activities identified for the DGM plan. These opportunities will be discussed further during the dissemination of FIP-IP when potential stakeholders/supporting agencies can be identified.

**Table 23: Indicative activities under DGM**

<b>FIP-IP project</b>	<b>Indicative activities for DGM funding (all activities for IPs and local communities including women, Dalits, Madhesis and other forest dependent poor)</b>
Total Cost	USD 4.4 million
Cross-cutting capacity development (these activities can be applied for all projects)	<ul style="list-style-type: none"> <li>• Local resource centre establishment at state level to serve as documentation, training, learning and dissemination centres and as the hub for all IP and community related knowledge management on NRM. e.g. develop dissemination packages for local and national levels</li> <li>• Development and support for women’s and men’s ‘think-tanks’ and experts to give direction, guidance, coaching, mentoring on IPs and NRM related issues and to provide intellectual inputs in policy and decision making, planning etc.</li> <li>• Developing women and men IP experts and resource persons at state and local levels for: (a) technical (forestry, REDD+ etc.); (b) social aspects e.g. social/gender analysis – organizational and program levels; organizational assessments etc.</li> <li>• Training and awareness for forestry/NRM service providers and technicians on gender and social inclusion/IP</li> <li>• Field observations and visits on forest management</li> <li>• Interaction meetings between province level IPs and local community groups</li> <li>• Internship and on-the-job training on forest management and timber utilization</li> <li>• Research e.g. to show how IP-related knowledge, skills and values contribute to natural resource development</li> <li>• Non-academic training for IPs and local communities on forest management</li> <li>• Interaction workshop among central level stakeholders</li> <li>• Institutional development for IPs and community groups</li> <li>• Media support for documenting traditional practices and IPs/local community achievements</li> <li>• Capacity development in participatory monitoring and evaluation</li> <li>• Leadership and governance training and mentorship for IPs, particularly for women with long-term coaching and mentoring support</li> <li>• Capacity development/coaching for CBFM group governance and administration/record keeping</li> <li>• Translation of key documents into local language and dissemination activities</li> <li>• Public hearings and social audits at local levels</li> <li>• Community-based information and monitoring systems</li> </ul>
Project 1. Sustainable forest management through CBFM	<ul style="list-style-type: none"> <li>• Awareness raising basic forest Operational planning/management planning</li> <li>• Capacity development for local resource persons for social and fund mobilization</li> <li>• Documentation and synthesis of customary practices in forest and watershed management</li> <li>• Networking of CBFM groups to share experience on forest management</li> <li>• Orientation on community based adaptation plan preparation and disaster risk management</li> <li>• Orientation on fodder management and livestock raising (for LHF) with follow-up</li> </ul>

	<ul style="list-style-type: none"> <li>• Product marketing including access to market information</li> <li>• Orientation on public land management plan (for municipalities)</li> <li>• Training on climate resilient agriculture practice with regular follow-up</li> </ul>
Project 2. Forest management for forest based economy	<ul style="list-style-type: none"> <li>• Awareness raising basic forest Operational planning/management planning</li> <li>• Skills development for timber harvesting and logging</li> <li>• Orientation and skills development on business development and entrepreneurship</li> <li>• Capacity development on traditional skills related to forest based products</li> <li>• Capacity development on marketing and business</li> <li>• Skills development to enable poor households to seek employment in forest industry</li> <li>• Skills/safety training for forest workers/labour</li> <li>• Awareness-raising on deregulation (timber harvest, sales, transport, utilisation)</li> </ul>
Project 3. Private Land Forest Development	<ul style="list-style-type: none"> <li>• Skills development to enable poor households to seek employment in forest industry</li> <li>• Extension material on plantation forest management</li> <li>• Orientation training on forage management and livestock with regular technical follow-up</li> <li>• Product marketing including access to market information</li> <li>• Extension materials on private forest registration</li> <li>• Networking and group formation for private forest owners networking</li> </ul>
Project 4. Enhance environmental services through nature-based tourism	<ul style="list-style-type: none"> <li>• Homestay management and hospitality training with regular technical follow-up</li> <li>• Agroforestry including organic farming</li> <li>• Skills development for NTFP processing</li> <li>• Skills development for agroforestry/horticulture, livestock etc</li> <li>• Skills development for handicrafts and marketing</li> <li>• Capacity development on cultural activities</li> <li>• Capacity development for small-scale infrastructure design and construction</li> <li>• Capacity development for wildlife/birding guides</li> </ul>
Project 5. Watershed management through innovative technologies	<ul style="list-style-type: none"> <li>• Orientation on integrated sub-watershed management planning</li> <li>• Skills development on plantation management and watershed treatment</li> <li>• Demonstration of traditional watershed and water resource conservation technologies and incorporation into the wider project</li> <li>• Development of local resource persons for social mobilization</li> <li>• Orientation on forage management and climate resilient agriculture practices with regular follow-up</li> <li>• Training on climate resilient agriculture practice</li> <li>• Formation and support for farmers group networking</li> <li>• Support product marketing (market information, cooperatives)</li> </ul>

## Annex 4: Summary of Nepal's draft REDD+ Strategy

215. Nepal's REDD+ strategy has been completed and still awaits formal approval by government. This Annex includes some of the salient parts of the REDD+ strategy including:

- Vision
- Mission
- Objectives
- Guiding Principles
- Summary of Strategies and Actions (Table 24)

216. **Vision.** Enhanced carbon and non-carbon benefits of forest ecosystems contribute to the prosperity of the people of Nepal

217. **Mission.** To strengthen the resilience of forest ecosystems for emission reductions and increased environmental, social, and economic benefits through improved policy, measures and institutions with enhanced stakeholders' capacity, capability and inclusiveness.

218. **Objectives:**

- i. To reduce carbon emission, enhance carbon stocks and ecosystem resilience through mitigation and adaptation approaches by minimizing the causes and effects of drivers of deforestation and forest degradation, and promoting sustainable forest management across the ecological regions. (Strategy # 1,2,3,4)
- ii. To improve resource tenure, and ensure fair and equitable sharing of carbon and non-carbon benefits of forests among rights holders, Women, Indigenous Peoples, *Madhesis*, *Dalits*, and forest-dependent local communities with effective implementation of safeguard measures. (Strategy # 5, 11)
- iii. To increase livelihood assets and diversify employment opportunities of Women, Indigenous Peoples, *Madhesis*, *Dalits*, Local Communities and Forest-dependent poor. (Strategy # 6,7,8)
- iv. To improve and harmonize policy and legal framework, in line with national and international requirements and standards, to harness carbon and non-carbon benefits; increase institutional capability, coordination and strengthen governance, gender equality and social inclusion of forestry sector (Strategy # 5,9,10,11)
- v. To establish and maintain a National Forest Monitoring System with a robust measurement, monitoring, reporting and verification mechanisms (Strategy # 12)

219. **Guiding Principles.** Guiding principles are composed of the following values:

- i. Aligning with overall national development goals and strategies
- ii. Building on the successful community-based approaches and practices
- iii. Enhancing harmony and synergy among different sectors and agencies
- iv. Utilizing and building on the existing capacity and capabilities



- v. Maintaining ecosystem integrity and optimizing the wide range of ecosystem benefits and
- vi. Promoting people-centric, gender and socially inclusive practices and approaches, as well as equitable benefit sharing and social justice
- vii. Addressing and respecting social, and environmental safeguards
- viii. Strengthening participatory, reliable and efficient measurement, monitoring and information system
- ix. Improving forestry sector governance and multi-stakeholder approaches

220. **Strategies and Action.** To achieve the objectives, 12 strategies and 70 actions have been developed. These strategies and actions will be prioritized in the implementation plan using criteria developed through a consultative process among the relevant stakeholders. Actions associated with each strategy are presented in *Table 24*.

**Table 24: Draft REDD+ Strategy (2016): Summary of Strategies and Actions**

	Strategy	Actions
1	Reduce carbon emissions, enhance forest carbon stocks, and improve supply of forest products	<p>1.1 Identify, delineate, and expand CF, CFM and other CBFM, and improve their management practices.</p> <p>1.2 Intensify and expand Sustainable Forest Management (SFM) in all relevant forest management regimes and certify them where feasible.</p> <p>1.3 Update and improve management plans of all forest management regimes with provisions of carbon stock measurement and monitoring methods and measures to control drivers of deforestation and forest degradation.</p> <p>1.4 Develop appropriate community-based forest management models specific to High Mountain regions considering the specific context of High Mountain areas.</p> <p>1.5 Strengthen fire control capabilities of DFOs, Protected Area Management Authority and CBFM Groups with specific management plans, financial and human resources, monitoring, technologies and insurance mechanisms.</p> <p>1.7 Rehabilitate degraded land by adopting appropriate measures, such as natural regeneration, plantation, and bio-engineering.</p> <p>1.8 Increase supply of sustainably harvested timber and timber products with improved distribution mechanisms.</p>
2	Increase non-carbon benefits of forests ecosystems	<p>2.1 Improve the management and conservation of forest, protected areas and, watersheds at landscape level by promoting integrated conservations, ecosystem based adaptation measures, and participatory models of ecotourism.</p> <p>2.2 Address key threats to biodiversity as identified by the Nepal Biodiversity Strategy and Action Plan 2014-2020.</p> <p>2.3 Identify and implement appropriate measures to address key threats to biodiversity.</p> <p>2.4 Assess climate change vulnerability of forest ecosystems and strengthen spatial planning and integrate them into respective forest management plans.</p> <p>2.5 Develop and promote appropriate institutional arrangements for Forest Ecosystem Service certification and Payment for Ecosystem Services (PES).</p>

3	Promote private and public land forestry	<p>3.1. Simplify regulatory provisions such as registration, harvesting, transportation, sale, processing and incentivize to promote private forestry.</p> <p>3.2 Provide technical and technological services to grow and manage indigenous, fast growing and high-valued tree species in private and public land.</p> <p>3.3 Promote agro-forestry in public land such as canals, roadside, marginal lands, riverbanks through regulatory framework and incentive mechanisms with participation of poor, women and marginalized households.</p>
4	Promote optimum land use across all the physiographic regions	<p>4.1 Promote implementation of the Land Use Policy 2015, particularly provisions related to the forestry sector. Update zoning and mapping of forest land use regularly.</p> <p>4.2 Develop and implement economic and market-based incentives to promote optimal land use.</p> <p>4.3 Develop extension materials on linking climate change and benefits of land use planning and disseminate through mass media and other methods.</p> <p>4.4 Ensure social and environmental safeguards during the formulation and implementation of land use plan.</p> <p>4.5 Strengthen enforcement and monitoring capacity of district level land encroachment control committee and law enforcement agencies to reclaim illegally occupied forest lands.</p>
5	Improve forest tenure, ensure carbon rights and fair and equitable benefit sharing among right holders, Women, Indigenous Peoples, Madhesi, Dalits, and forest-dependent local communities	<p>5.1 Respect and address safeguard measures on forest tenure security of Women, Indigenous Peoples, Madhesi, Dalits, Local Communities, and Forest-dependent Poor.</p> <p>5.2 Assign carbon rights aligning with forest rights within policies and legal instruments.</p> <p>5.3 Establish transparent and participatory mechanism for marketing and selling of carbon credits arising from future REDD+ activities. Move to governance</p> <p>5.4 Establish transparent and inclusive mechanism for equitable benefit-sharing (carbon and non-carbon benefits) among rights holders.</p> <p>5.5 Recognize and integrate traditional and customary knowledge and practices in forest management plans particularly in CF, CFM and other CBFM.</p>
6	Promote forest-based enterprises for livelihood and economic development with strong role of the private sector	<p>6.1 Revise policies on registration, operation, trade, transport, tax, and subsidy to encourage private investment in forest-based enterprise and wood technologies including bamboo housing, timber drying, wood treatment, compressed and particle board, wood processing, and veneer production through technological innovation.</p> <p>6.2 Invest in sustainable forest-based enterprises such as timber, NTFPs, ecotourism to create employment opportunities producing finished forest products for domestic and export markets that support livelihoods of forest dependent poor.</p> <p>6.3 Simplify regulatory provisions such as registration, transportation, sale, processing that is conducive to private sector involvement in forest-based enterprises, trade and wood/non wood technology development targeting forest-dependent poor and other marginalized groups.</p> <p>6.4 Promote vocational education and skill-based training opportunities for enterprise development and forest operations such as harvesting, logging, sawmilling, carpentry, and wood technologies especially for Women, Indigenous Peoples, Madhesi, Dalits, Local Communities and Forest-dependent Poor.</p> <p>6.5 Improve access to alternative technologies such as small sawmills carpentry, food processing, efficient stoves, kilns, briquettes, power looms and bio-gas by providing information, knowledge and loan services for</p>

		<p>Women, Indigenous Peoples, Madhesis, Dalits, Local Communities and Forest-dependent Poor.</p> <p>6.6 Incentivize and support Community Based Forest Management User Groups and also link them to local government resources such as matching funds and resource leverage to create incomes, livelihood options and job opportunities for Forest-dependent Poor.</p>
7	Increase agricultural productivity of forest-dependent and other smallholders	<p>7.1 Support climate smart agriculture such as agroforestry, ecological farming, Sloping Agriculture Land Technologies, minimum tillage, direct seeding technologies and use of farmyard manure.</p> <p>7.2 Support to revisit and revise policies for small-scale sustainable agriculture</p> <p>7.3 Promote fodder and forage management in CF, CFM and other CBFM, and private land with increased access to seed/seedling, cultivation, management, and feeding and processing technology.</p> <p>7.4 Conserve and increase water sources and promote efficient water management technologies.</p> <p>7.5 Support forest dependent and smallholders with information, technology and incentives to increase their access for the crop &amp; livestock breeding and husbandry improvement.</p>
8	Increase access to sustainable, affordable and reliable alternative energy	<p>8.1 Promote sustainable, cost-effective alternative energy and energy saving technologies such as bio-briquettes, bio-gas, solar, wind, and Improved Cook Stove through educational, financial and technological interventions.</p> <p>8.2 Simplify the registration process, provide input on technology, and subsidies on equipment for energy production that encourages use of available energy in operating forest-based enterprises.</p> <p>8.3 Develop mechanisms to increase access of forest-dependent poor and marginalized people to alternative energy and energy saving technologies.</p>
9	Improve collaboration, cooperation and synergy among sectoral policies, sectors and actors	<p>9.1 Establish strong coordination mechanism among relevant sectors for integrated planning, implementation, monitoring and evaluation of sectoral policies, plans and programs.</p> <p>9.2 Identify and align legal frameworks in line with international commitments and harmonize between cross-sectoral policies and legal frameworks.</p> <p>9.3 Strengthen multi-stakeholder and integrated planning approach at all levels involving key government and non-government agencies on land, forest, water, agriculture, energy, and infrastructure, and increase consensus and commitments.</p> <p>9.4 Develop policies, legal frameworks and institutions for investment in climate change mitigation including performance-based payment mechanisms.</p> <p>9.5 Sensitize security agencies, media, and civil society on climate change, REDD+ and forest conservation.</p> <p>9.6 Incorporate climate change, roles of forest on climate change mitigation and importance of forest conservation in formal education.</p> <p>9.7 Control cross-border illegal trade of forest products through intercountry cooperation with Indian and Chinese authorities.</p>
10	Improve capacity, institutional performance and service delivery of the forestry sector institutions, right-holders and relevant stakeholders	<p>10.1 Support to re-structure and reform forestry institutions as specified in forestry sector strategy.</p> <p>10.2 Improve management and leadership competency, GESI responsiveness, commitment and morale of forestry personnel through initiatives such as coaching, counseling, performance based incentive mechanism, capacity development programs, and code of conduct.</p> <p>10.3 Support to review and simplify judiciary and judicial processes</p>

		<p>related to forest law enforcement.</p> <p>10.4 Identify capacity needs of forestry institutions as well as communities and equip them with necessary skills, knowledge and logistics to enhance law enforcement.</p> <p>10.5 Increase knowledge and capacities of relevant stakeholders, political leaders, and right holders on climate change and REDD+ through extension, training, workshop and other methods</p> <p>10.6 Institutionalize and strengthen Apex body, REDD Working Groups, REDD Stakeholder Forums with clearly defined roles and responsibilities, proper planning, and review.</p> <p>10.7 Institutionalize REDD Implementation Centre as REDD+ entity with capacity to generate, access, manage and utilize fund for effective implementation of REDD+ related strategies, policies, plans and programs.</p> <p>10.8 Ensure adequate representation and meaningful participation of Women, Indigenous Peoples, Madhesis, Dalits, Local Communities, Private sectors and Forest-dependent Poor in relevant forestry decision-making processes through policy provisions, institutionalization and capacity development.</p> <p>10.9 Establish and strengthen feedback and grievance redress mechanisms that are gender-sensitive and socio-culturally appropriate.</p> <p>10.10 Provide support for capacity and institutional development to improve and maintain governance of CF, CFM and other CBFM groups with enhanced governance practices including public hearing, public audits and performance monitoring.</p> <p>10.11 Promote reward and penalty systems for both government agencies and forest user groups to control illegal harvesting, illegal trade and encroachments.</p>
11	Ensure Social and Environmental Safeguards including environment-friendly development	<p>11.1 Integrate and ensure social and environmental safeguards in all REDD+ programs and activities.</p> <p>11.2 Adopt approach to Free, Prior, and Informed Consent (FPIC) of rights holders particularly, Indigenous Peoples and Local Communities.</p> <p>11.3 Develop and implement alternative rehabilitation arrangements for landless living in forest lands.</p> <p>11.4 Ensure effective implementation IEE and EIA while using forest land under nationally prioritized development projects.</p> <p>11.5 Avoid forest area for infrastructure development, resettlement and make compulsory provision of tree planting to substitute forest area cleared if any</p> <p>11.6 Establish and maintain a National Forest Monitoring System with a robust measurement, monitoring, reporting and verification mechanisms</p>
12	Establish and maintain a robust and well-functioning national forest monitoring system	<p>12.1 Enhance national capability with investment, technology and human resources for conducting forest resource survey and inventory periodically</p> <p>12.2 Develop appropriate capacity of government agencies and local communities for the collection, analysis, storage, management and dissemination of carbon and non-carbon related data and information for planning and MRV.</p> <p>12.3 Establish a well-functioning Forest Management Information System under the National Forestry Monitoring System.</p> <p>12.4 Develop and functionalize cost-effective mechanisms for monitoring, measurement, reporting and verification of REDD+ programs.</p> <p>12.5 Strengthen community-based monitoring systems with identified monitoring indicators in community-based forest management.</p> <p>12.6 Establish spatially explicit information systems on land use potential, allocations and potential conflicts/complementarity with REDD+ strategies.</p>

## **Annex 5: Comments by expert reviewer on Nepal's FIP-IP and response to the comments from REDD IC, Govt of Nepal**

This Annex includes the independent review of Nepal's FIP-IP by Ken Andrasko as submitted to REDD-IC on 01/11/2017 and incorporates the response from REDD-IC. The independent review analyses the draft FIP-IP against various criteria and makes an assessment as to whether the criteria has been met (green) whether additional work is still required (yellow) or whether it did not meet the criteria (red). The response from REDD-IC (below) has been limited to criteria assessed as being yellow i.e. additional work is still required. Each response includes 2 aspects:

- (a) A general response commenting on the point raised by the reviewer and giving an explanation or clarification where necessary
- (b) A response giving details of how this point will be addressed during the detailed project preparation for the 5 identified investment projects.

Comments have been provided to some criteria assessed as being met (green) but for which the reviewer posed a clarifying question. No FIP criteria was assessed as not being met (red). Finally, where additional recommendations have been provided at the end of the review document in the section marked 'Some recommendations that could enhance the quality of the investment plan' – a similar 2-part response has been provided under each of the nine points.

The comments provided by the reviewer have been taken as an opportunity to enhance the draft FIP-IP and will significantly improve the effectiveness in delivering the results indicated. The response of Nepal's REDD IC to the points raised by independent review are given in the tables below – shown in shaded areas.

### **Independent Review of the Forest Investment Plan of Nepal (Nepal-FIP)**

**Reviewer: Kenneth Andrasko**

**Date of review: 2 November 2017, of draft dated October 2017**

**PART I: Setting the context** (from the reviewer's overall understanding of the FIP document)

The overall goal of the Nepal FIP is: "Strengthened resilience of forest ecosystems for emissions reductions and increased environmental, social and economic benefit". The title of the Plan, "Forest Investment Plan for Nepal: Investing in Forests for Prosperity at a Time of Transformation," telegraphs its central focus on increasing greenhouse gas (GHG) emissions reductions by slowing deforestation and degradation and increasing forest carbon stocks, while stimulating investment in forests for livelihoods.

The FIP Plan requests USD 24m over 8 years from the FIP, i.e., USD 6.1m in grants and USD 17.9m in loans (the majority). The Plan is a much larger endeavor however: it is designed as a USD 102.48m total program, of which FIP would provide 23% of the funds, Govt. of Nepal (GoN) would provide USD 20.6m, communities (via budgets allocated down from the Ministry of Finance) USD 13.3m, private partner forestry firms would invest USD 15.3m, and other sources not yet identified USD 29.2m. Nepal also would receive USD 4.5m in FIP-DGM funding if the IP is endorsed by FIP.

The Plan has been developed by and would be implemented overall by the REDD-IC, within the Ministry of Forests and Soil Conservation in Kathmandu. REDD-IC is the official focus for REDD+ activities in Nepal and the developer of the sister FCPF ERPD proposal, to which this one is closely linked.

Overall, the Plan is very well conceived and presented, and its rationales for why its various parts have been selected and combined into a portfolio generally make sense, since they derive from extensive stakeholder consultation priorities. Table 4 reviews how the political change underway now has created new opportunities for the forest sector that didn't exist until the new Constitution was agreed in 2015, and the Plan builds on some of them.

The Plan is a portfolio of 5 “projects” that each focus on a different critical activity identified via stakeholder consultations for implementation of REDD+ in Nepal. The first 3 are closely aligned with their counterparts in the REDD-IC's ERPD proposal interventions numbered 1-3; the 4th (planned ecotourism to reduce deforestation) is an identified need not yet addressed by any initiative; and the 5th would bring the proposed activities of the first 2 projects—afforestation in degraded lands and plantation establishment and management largely—to the dry, degraded valleys of several of Nepal's huge Himalayan-runoff river corridors, near hydropower facilities.

**The 5 projects are:**

**Project 1** will strengthen sustainable forest management through **Community Based Forest Management (CBFM)** on fully 161,000 hectares (ha) in the lowland Terai and adjacent upland Chure regions. These are the main sources of GHG emissions from deforestation and forest degradation. Co-finance for interventions #1 & 2 in Nepal's ERPD would be provided, to transfer remaining forest areas to community-based forest management (CBFM) groups, and assist them in preparing and implementing forest management plans. New lands would be allocated to poor and Dalit (untouchable caste) households for fodder production.

**Project 2** on **Forest Management for Forest-based Economy**. This will promote sustainable management of plantations under the control of CBFM groups. The geographic focus is the Middle Hills and productive natural forests in the Terai. Three districts provisionally have been targeted. This seems to show a higher level of knowledge and forethought than the more generically described other projects (which would benefit from more specific geographic definition). CBFM groups would partner with private entrepreneurs to introduce sustainable timber harvesting, and to establish local small-scale production mills and wood product industries.

**Project 3** will support **Private Land Forest Development** – establishing blocks of fast-growth plantations on marginal, degraded private agricultural land in the Hills and Terai. Landowner/farmer groups will be organized to establish blocks of plantations, which would produce timber for forest products—and significantly ease the tech assistance, harvesting and transport of wood products, and monitoring tasks.

**Project 4** will **Enhance Environmental Services Through Nature-Based Tourism** in a few hot spots for domestic Nepali and Indian ecotourism. It will develop land use planning for infrastructure of development, a significant driver of deforestation not addressed by other initiatives.

**Project 5** will implement **Watershed Management Through Innovative Technologies** to rehabilitate degraded dryland forest in a few major river valleys in the watersheds of major

dams. Techniques include restoration of vegetation, plantation establishment, and soil and water conservation and bioengineering carried out by CBFM groups.

The proposal builds on Nepal’s well-known strengths in the forest sector:

- 1) its 25-year history of successful community forestry governance in the Middle Hills;
- 2) the willingness of the national government to transfer its forest lands to community group management (over 2m hectares have been transferred thus far);
- 3) a well-orchestrated REDD+ program to date; and
- 4) extensive consultations with stakeholders on the REDD+ and FIP proposals.

The FIP design team is consciously studying the lessons learned from previous projects and incorporating them to address some key barriers to forest management.

Nepal has developed a National REDD+ strategy via interagency cooperation and consultations, although it has not yet been finalized. The FIP Plan builds directly onto the REDD+ strategy and the set of initiative ideas for it identified by stakeholders. The Plan repeatedly mentions efforts to ensure gender equality and inclusion of marginalized peoples in each project.

**Part II: General criteria: *The investment plan complies with the general criteria indicated in ToRs***<sup>42</sup>

<b>A. Country capacity to implement the plan</b>
<p>Nepal’s government forestry agency appears to be well-managed overall, and is active in developing new initiatives and seeking donor support. Its government agencies have a strong history of cooperating in general, and of transferring land to communities it then works with in resource management partnerships. The key agencies seem to be slowly responding to the rapidly changing political transition and its forest governance implications, as best possible in a highly uncertain time of change after 10 years of a Maoist rebellion that forced removal of the monarchy, a new federal government structure, and a new Constitution in 2015. Overall during 7 days of discussions in Kathmandu in late September on other business, this reviewer found the REDD-IC and every other agency or stakeholder consulted was optimistic about the capacity of the newly evolving decentralized political system to adapt to the change and move forward together.</p> <p>REDD-IC abbreviation is not defined nor is the IC briefly explained (possible I missed it). It is the official focus for REDD+ activities in Nepal and the developer of the FCPF ERPD proposal that is a critical sister one to this proposal; this note is needed.</p> <p>One key question not fully addressed is: How will the vast array of activities be coordinated between the REDD+ REDD-IC team managing the potential ERPD activities and the FIP Plan activities, and the local municipalities and 7 new state authorities implementing the on-the-ground activities? Will some activities be easier or more difficult to deploy in the new arrangements? The FCPF draft ERPD provides a table of early ideas about how the political transition will affect its major interventions, which could be beneficial to this proposal as well and build confidence FIP will survive the transition.</p>
<b>A. Comment from REDD IC Nepal</b>
<p>On approval of FIP-IP, the first task will be to establish the detailed working modality for FIP coordination. Broad ideas have been discussed at this stage but have yet to be finalized. It is expected that program coordination at national (federal) level will be provided through a separate Program Management and Coordination Unit (NPMCU) under MoFSC and governed by a Multi-stakeholder and Multi-Sectoral Steering Committee. The Chief of Foreign Aid Coordination Division of MoFSC would be the member secretary of this steering committee and the Chief of REDD IC will be an ex-officio</p>

<sup>42</sup> Each criterion is assessed in 3 colors: green = met the criteria; yellow = need for some additional work; red = did not meet the criteria yet.

member of the Steering Committee. The Chief of REDD-IC will also remain the National Focal Point of FIP. However, due to engagement right from proposal writing to the development of FIP-IP, REDD IC will lead the detail design of each project so that there will not be any gap between the FIP-IP and the detail projects. But once the projects are designed, the NPMCU will take over the responsibility for project implementation and monitoring. This will enable a close link to be maintained between Nepal's REDD+ program and the FIP-IP.

The NPMCU will be a small operational unit with clearly defined terms of reference and budget to implement certain program-wide functions described in section 5.2 including overall program coordination. Actual implementation of the 5 proposed investment projects will be at state and municipality levels in accordance with the new constitution. Technical support or co-management support may be required for the NPMU.

It is anticipated that NPMCU will organize (annually) a larger program-wide stakeholder meeting to present progress with the implementation of activities; identify challenges and opportunities; and foster knowledge exchanges. These meetings will take into account the new structures emerging from the political transition process.

### ***B. Developed on the basis of sound technical assessments***

The proposal cites stakeholder perceptions of the proximate drivers of deforestation, and builds the proposed interventions around them. It is strongly aligned with the REDD+ Readiness analyses and products, repeatedly referred to, and is proposed by the same unit that manages that process and that is writing the FCPF ERPD proposal, the REDD-IC unit. A significant amount of quality work has been performed to inform the design of this proposal. Numerous lessons learned from prior projects are cited generally (although it would be helpful for the text to cite specific projects, lessons, and references for them).

The plan identifies a set of opportunities to further buttress the ERPD proposed interventions, and existing Readiness activities now being finalized, so it builds on strong foundational work. It is especially salient when it focuses two projects (2 and 3) on finding ways to promote private sector participation in the forestry sector, citing a range of barriers it is designing the FIP Plan to overcome: eg, limited access to commercial finance for forest plantation establishment and harvesting, and wood product production; limited technical skills in sustainable forest management techniques and equipment use, etc.

The proposal includes several activities to create innovative financial mechanisms to address obstacles identified by the private forest products sector, stakeholders and government agencies in obtaining the necessary financing of forest activities. These include private firms leasing private agricultural land to plant plantations and buy the trees produced, working with banks to open up credit lines for plantation establish and wood product manufacturing, etc.

### ***C. Demonstrates how it will initiate transformative impact***

The Plan proposal has significant potential to create transformative impact. The estimated carbon emission reductions are relatively modest, 450,000 tonnes CO<sub>2</sub>e over 8 years. This is a fraction of Nepal's national total GHG emissions of 37 mtCO<sub>2</sub>e in 2014 (using WRI's CAIT global database), but is more significant when compared to the land use sector's net annual carbon uptake of about 4 mtCO<sub>2</sub>e. This mitigation benefit estimate needs to be double-checked, however, as it seems low, considering about 140,000 ha are involved.

Its most impressive transformative element is its projects 2 and 3, which would collectively transform the current minor role of private forest production in the country. Nepal now imports ~80% of its wood product requirements. This is due to highly complex government regulations and laws restraining private ownership and investment in forest production and manufacturing activities; limited access to credit for forest production (not on par with agricultural finance); and inadequate skilled technical staff



availability.

If the private components of projects 2 and 3 are implemented as proposed, this would dramatically change the productive capacity of private forest plantations and other lands, and stimulate further investment in private production of plywood, timber for construction (especially needed for reconstruction after the huge 2015 earthquake). Private sector interest in accelerating growth of the sector is strong and diverse.

Secondly, the Plan is directly conceived to support the ERPD proposal by complementing the ERPD interventions with additional lands and funding, and paralleling the ERPD commitment to enhancing the private sector role. Nepal's REDD+ strategy is recognized as moving well, producing useful products, being driven by consultative processes. However, it is minimally funded to date. The REDD-IC has produced a detailed and sophisticated FCPF ERPD proposal primarily founded on expanding government transfer of 200,00 ha of its forest land to community management (which the FIP Plan's project 1 would buttress), and improving sustainable management by communities of 336,000 ha of forest lands. REDD+ would become the driving force nationally in improved land use management and governance, and GHG emission reductions, if the twin ERPD and FIP proposals are funded and jointly managed as proposed.

Thirdly, the Plan incorporates two innovations that would be readily scalable to much larger regions if successful. Project 4 would explore how land use planning could reduce GHG emissions from forest land clearing for infrastructure construction (in this case for ecotourism facilities); and project 5 would introduce watershed management techniques using bioengineering with trees, grasses and other vegetation near hydro dams to improve water infiltration, reduce erosion, and provide other climate adaptation benefits.

***D. Prioritization of investments, lessons learned, M&E, links to the results framework***

Stakeholder consultations identified the key feasible activities to build the REDD+ Strategy around, which have been combed through to find the set of projects proposed in the Plan. The priorities have been set by the stakeholders—an unusually progressive project design method, unfortunately.

The proposal design process also reviewed lessons from earlier projects to inform the selection of activities and governance modes. These lessons are referred to throughout the proposal.

But it would be very helpful: For Table 11 to be edited to state in the right-hand column which lessons have been building block concepts for FIP, and how they have been incorporated into the project design. It falls short of doing that now, teasing readers to guess what they learned and how it was used. This table could be profitably moved up from p. 53 into a short new early section that could provide an overview of the Methods used to develop the Plan—even a ½ page would facilitate our understanding of how and why the design ended up this way.

The proposal is ambitious in the scale of its proposals. They would be piloted or fully implemented in very large transversal ecoregions shown in a series of maps. The regions are chosen to complement those selected for the ERPD proposal, which focuses more on the western Terai districts in the Terai Arc Landscape.

One major concern however is: That the proposal is too geographically dispersed, and features too many activities -- for relatively understaffed and underfunded agencies like REDD-IC, Ministry of Forests and Soil Conservation, and others to be able to implement. The map of projects in Fig. 3 shows them covering fully roughly ¼ of the entire country -- characterized by very difficult terrain and poor transportation infrastructure. Most of the projects are generically described in terms of where they would be implemented (i.e. the Terai, etc.), and would benefit from more specific geographic definition. Narrowing the areas to be worked in would help address the current sprawling design and management challenge.

The Plan authors are encouraged: To reflect on what the most important activities are, and be certain to

build the proposal round them—being willing to forego less critical activities. Minimally, the REDD-IC could a) create a set of site selection criteria to guide the harrowing down in each project to specific sites to work in; and b) announce that it intends to geographically co-locate as many ERPD and FIP Plan activities as it is feasible. This could dramatically reduce the number of locations it needs to work in and to monitor. Why should ecotourism, or watershed restoration -- if it makes sense to pursue either -- be situated in a completely different state and region than the rest of the program?

For instance, if the central axis of the Plan is to provide early funding for the slowly produce ERPD project emission reductions credit sales and revenues, then projects 4 (piloting ecotourism in new regions) and 5 (watershed management) could be less critical and could be considered expendable or be downsized. This could help make certain limited staff and institutions can pull off the central thrust of the Plan—supporting the REDD+ Strategy’s implementation.

The M&E and results framework are not very well elaborated. But at this stage of the process they seem adequate.

**Comment from REDD IC Nepal**

The prioritization of activities that will be included in the projects will be done jointly between the Government of Nepal and the World Bank. In addition, opportunities to blend FIP resources with IDA-18 resources will be explored. For forest-smart investments such as nature-based tourism or sustainable watershed management for hydropower, opportunities will be explored to early on integrate forest-considerations into the design of World Bank projects or project components.

***E. Stakeholder consultation and stakeholder engagement***

A very extensive set of stakeholder national consultations and regional consultations were undertaken and summarized. The proposal repeatedly refers to feedback from those meetings and stakeholder identification of drivers of deforestation critical REDD+ Strategy activities needed, many findings are presented in Annex 2, etc. Participants included major forest-related community forestry user groups, indigenous organizations, conservation NGOs, municipal governments, forestry companies and associations, research institutes like ICIMOD, and bilateral and multilateral agencies active in forestry. 25% of participants were women, fully 46% were marginalized castes or ethnicities or Indigenous Peoples, and 9% were from the private sector – an unusually high turnout (from Tables 20 and 21).

***F. Social and environmental issues, including gender***

Social and environmental issues, including gender, are thoroughly discussed in the FIP proposal. The consultation summary points in Annex 2 list many relevant observations by attendees; the Key Results table on p. 10 lists many quantified success indicators that include marginalized, IP or women and youth; inclusion of women and the marginalized is recognized as an enduring obstacle to be addressed in the design process.

All the projects include reference to promoting social and gender equality. There are some specifics on how this inclusion would be accomplished (eg, via targeting an activity to lands these stakeholders live on etc.); and many indicators specific to such inclusion are listed.

The proposal authors could improve this section by briefly explaining more specifically: what actions would be taken to be certain the underserved and poor actually become involved in activity X, how that would be accomplished and how it would be monitored?

The FIP proposal recognizes the importance of reaching and involving Indigenous Peoples as well. The review of which safeguards might be triggered includes one concerning Indigenous Peoples and the proposal says project activities will include plans to mitigate social and environmental problems and creation of mechanisms to resolve conflicts that may arise.

<b>Response from REDD IC Nepal</b>	
<p>As highlighted by the reviewer, the FIP-IP considers social issues including gender to be particularly important for Nepal – especially in view of the diverse nature of Nepali society and the existing high levels of poverty and social inequity – particularly for IPs, women, Dalits, Madheshis and other social groups. Therefore FIP-IP has been designed not just to produce broad socio-economic outcomes at community level but to ensure that these accrue to the most marginalized groups in Nepali society – thus addressing a widely researched issue in the forestry sector where benefits (especially at local level) have tended to be captured by elite groups. In fact, the transformational aspect of Project 1 (para 109) is specifically to upscale positive lessons in CBFM for addressing social inequity (learned from other projects and studies) to ensure that mistakes of the past are not repeated. There are many positive examples that can be scaled up – described in Annex 1 paras 109-114 and the results indicators for Project 1 (page 76) reflect these. The four other projects also focus on the importance of ensuring social and gender equity (not equality) in their outcomes and impacts.</p> <p>Experience from other projects in Nepal has shown that there are 3 broad mechanisms that can be used (and that will be incorporated into the detailed preparation of all 5 projects in the portfolio) to ensure gender and social equity. These include: (i) Identification of disadvantaged and socially excluded households (at community level) through well-known tools such as participatory well-being assessment/vulnerability assessment by trained and experienced facilitators/social mobilisers; (ii) focus on building group-governance at local/community level by training, awareness raising and capacity development for group decision-makers to ensure that appropriate decisions on benefit sharing in favor of the most disadvantaged households are made and by using tools for enhancing group transparency and accountability e.g. social audits; and (iii) enhancing the voice and capacity of socially excluded groups and individuals themselves to raise issues, make suggestions and to enable them become decision-makers themselves (in addition, this be a major role for the funds that will be disbursed through the DGM as well)</p> <p>At this stage, the FIP-IP does not yet contain many detailed actions for ensuring gender, equity and social inclusion – although every project idea has highlighted the importance of ensuring these aspects. Details will be provided through the subsequent project preparation process – where specific activities will be identified and incorporated into project design.</p>	
<b>Actions to be taken during detailed project preparation in response to reviewer’s comment</b>	
<p>During the detailed design of the individual projects (all 5) the ToR for each project will specify the need and specific activities for:</p> <ol style="list-style-type: none"> <li>i. Carrying out <u>baseline socio-economic studies</u> (disaggregated by gender, ethnicity, socio-economic status and caste) – as far as possible using participatory tools at community level</li> <li>ii. Identification of <u>socio-economic monitoring systems</u> and associated indicators that will enable project socio-economic outcomes to be monitored and assessed during the course of the project (again as far as possible these should be done in a participatory way with local communities and households)</li> <li>iii. Incorporating tools within the project for ensuring <u>transparent and accountable decision-making</u> in favour of socially disadvantaged groups and households and for enhancing governance at local level</li> <li>iv. Identifying <u>specific and targeted activities</u> for incorporation in each project that will result in benefits for disadvantaged households (including employment, capacity development, enhancing climate resilience, benefit sharing etc)</li> </ol> <p>In addition, the DGM plan will focus on the demand-side by building capacities and voice for IPs and communities including women, Dalits, Madheshis and other forest dependent poor communities as a means for voicing demands. Experience from social mobilization in Nepal in a variety of projects has shown that this can be done if sufficient numbers of local resource persons can be brought into the project to work with communities. Many such ideas are already included in Table 23 (Annex 3)</p>	
<b>G.</b>	<b><i>New investments or funding additional to on-going/planned MDB investments</i></b>
This Plan has been designed in close coordination with the ERPD proposal and refers to numerous other	

past and ongoing relevant programs, including those of World Bank, GEF, DFID, proposals under development for the GCF, UNDP, FAO, USAID, IUCN, and explains how they are complementary with the FIP Plan. The FIP is intrinsically integrated with FCPF activities and the activities supporting the National REDD+ strategy.

**H. Institutional arrangements and coordination**

Institutional arrangements are centered around the REDD-IC, which already manages the REDD+ process and has well-developed relationships with all the other major partners. and proposed coordination mechanisms seem adequate. It will coordinate implementation, while the individual agency partners implement specific activities or whole projects. The agencies are mostly housed in the big government complex in Kathmandu, so generally coordination is straightforward. REDD-IC already regularly contracts consultants, signs and implements agreements with municipal governments and NGOs, moves funds to communities as needed, etc.

**I. Poverty reduction**

Most of the projects specifically target poverty reduction via identifying land types and land uses and their populations that are marginal and/or poor. Community forestry activities isolate the marginalized and small farmers so that they will be offered every opportunity to participate in livelihood-enhancing activities. Introduction of plantations and tree planting in 4 of the 5 projects should offer increased income from forest products that are now marketed; and the 5th project on rural ecotourism is designed to confer income to households that participate.

**J. Cost effectiveness of proposed investments**

Plan activities are estimated to reduce net forest carbon emissions by 450,000 mtCO<sub>2</sub>e over 8 years, with a total FIP investment of about USD24 million. That is a very small CO<sub>2</sub> benefit for the roughly 140,000 ha involved, at a high cost, about \$US 53/ t CO<sub>2</sub>e.

The proposal team should double-check if that estimate of CO<sub>2</sub>e benefits produced is correct; it seems low. Little detail is presented to evaluate these estimates, but they appear to assume less than 1 tCO<sub>2</sub>e/ha per year, a very low rate more applicable to soil carbon sequestration rates than much higher vegetation growth rates. Perhaps carbon rates/ha vs. CO<sub>2</sub> rates are mixed up?

**J. Response from REDD IC Nepal**

The FIP-IP has been developed to ensure that all 5 proposed investments have quantifiable benefits in terms of emissions reductions (Figure 4 page 27). As suggested by the reviewer, the earlier calculations have been re-checked. Some calculation errors were found confirming the reviewer's remarks - as a result, the following table showing emissions reduction by each proposed project has been prepared, and Figure 4, in the document has been replaced to show these figures.

<i>Total Emissions removal by year from each proposed FIP projects (tons of CO<sub>2</sub> e)</i>									
	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>	<i>Year 6</i>	<i>Year 7</i>	<i>Year 8</i>	<i>Total</i>
<i>Project 1</i>	0	30,559	61,117	91,676	122,234	152,793	183,352	213,050	854,781
<i>Project 2</i>	2,580	7,741	15,482	25,803	38,705	54,186	72,248	92,891	309,636
<i>Project 3</i>	0	0	8,601	21,503	38,705	60,207	77,409	86,010	292,434
<i>Project 4</i>	0	1,290	2,580	3,870	5,161	6,451	6,451	6,451	32,254
<i>Project 5</i>	0	2,457	4,915	7,372	9,830	12,287	14,745	17,202	68,808
<i>Total</i>	0	42,047	92,695	150,224	214,634	285,924	354,204	415,604	1,557,913

From the table, the revised estimated total emissions reduction/removals for all five proposed projects over the whole project period (8 years) is more than 1.5 million tonnes of CO<sub>2</sub> e. We are also confident that these estimated emissions reduction/removals by the whole FIP-IP are conservative.

However, all proposed projects also have significant and quantifiable co-benefits in terms of livelihoods

(especially for socially disadvantaged people), economic development and growth and other aspects of environmental services – especially water and soil conservation. An assessment of the cost effectiveness of proposed investments needs to consider all benefits – not just the per ha benefit and cost of CO<sub>2</sub>e emissions reductions.

Recent forest resource assessment data from Nepal show that the average carbon stock of Nepal’s forests is 176.95 t/ha). It has also been observed that 5-10 m<sup>3</sup>/ha/year mean annual increment can be achieved in plantations. In this context, it is reasonable to expect that total emission reduction/removals from the proposed five projects in 8 years would be about 6 million tons of CO<sub>2</sub>e. This comes to about USD 17/tonne of CO<sub>2</sub>e (taking the total cost of the five projects with co-financing as about USD 102 million). If only the funding from the FIP is considered (USD 24 million) it would be USD 4/tonne of CO<sub>2</sub>e)

In addition, the effects of transformational changes (as opposed to direct effects) on emission reductions should also be considered. FIP-IP will promote new approaches to addressing drivers of deforestation and degradation including working with the new government structures (under the new constitution); capacity development (especially under the DGM project) and changes in regulations and policies to alter the enabling environment. These types of transformational changes will affect all parts of Nepal – not just those directly covered by projects under FIP-IP – therefore there will be a knock-on effect.

It is unclear from where the area figure of 140,000 ha mentioned by the reviewer has arisen. Actual forest areas covered by each proposed project (taken from the project descriptions in Annex 1) are: Project 1 – 161,000 ha; Project 2 – 72,000 ha; Project 3 – 10,000 ha; Project 4 – 5,000 ha and Project 5 - 10,000 ha i.e. a total of 258,000 ha. At this stage, all calculations of emission reductions were based on IPCC guidelines i.e. they are estimated. However, the per ha figures broadly confirm with the calculations used in Nepal’s draft ERPD (especially for Projects 1 & 2). Calculations have now been revised and corrected.

**Actions to be taken during detailed project preparation in response to reviewer’s comment**

During detailed project preparation 3 aspects need to be considered for the design of each individual project. These will be incorporated into the ToR of the organization(s) mandated to produce detailed project documents:

- i. All project climate benefits (including emission reductions) will be recalculated based on (as far as practical) site-specific conditions for the actual project areas selected and using locally available data e.g. growing stock, activity data and emission factors. This will ensure that FIP-IPs actual contribution to Nepal’s NDC will be properly assessed.
- ii. All other socio-economic and other benefits will be quantified as part of the design
- iii. Baseline figures will be incorporated into the results framework for each project and monitoring mechanisms will be established to ensure that project impacts in terms of these can be properly assessed.

**Part II: Compliance with the investment criteria of FIP**

*Comment on whether the investment plan complies with the criteria specific for FIP (see TORs).*

(1) Complies with the principles, objectives and criteria of the FIP as specified in the design documents and programming modalities.

**FIP principles:**

*In addition to the Governance Framework of the Strategic Climate Fund (SCF), the principles (i) to (vi) apply.*

**(i) National ownership and national strategies**

Nepal government agency ownership is very clear, since REDD-IC and its Ministry of Forests and Soil Conservation is the driving force behind the proposal, the REDD+ process, etc. Other relevant ministries are clearly involved as well, and the activities and process reflect Nepal’s priorities in forestry policy, climate change, and land management, legislation, policies, and international commitments. Table 9 reviews the 2015 Forest Policy and crosswalks it with each of the 5 projects to show where strong linkages

occur.	
<b>(ii) Contribution to sustainable development</b>	
The projects would contribute to 9 of the 17 Sustainable Development Goals, support the national biodiversity conservation plans and processes, help Nepal meet its NDC commitments, etc., which are all tabulated. Additionally, they would: 1) contribute to peaceful political transition in the volatile Terai landscape, 2) help support the current rapid evolution of new governance models at the municipality level, 3) help mitigate climate change and restore degraded terrestrial ecosystems, 4) contribute to poverty alleviation and improved rural livelihoods, and 5) advance restoration of degraded watersheds and water resource management.	
<b>(iii) Promotion of measurable out-comes and results-based support</b>	
This proposal provides many well-quantified indicators for its measurable targets. Eg, forest sector emissions reductions, increase in women and marginal populations who receive forestry incentives, municipalities involved in FIP fuelwood activities, additional area of plantations, restored forest and watersheds, hectares with improved silvicultural management, etc. A thorough logical framework is presented.	
<b>(iv) Coordination with other REDD efforts</b>	
A detailed description exists of how the FIP Plan would be coordinated with FCPF, other REDD efforts, the FIP DGM for Indigenous Peoples (which would contribute \$4.5m to the IP), and other major forestry projects. A table is presented that crosswalks REDD+ activities with the FIP Plan activities transparently.	
No evidence of potential double-counting is noted. However, the proposal would be improved by its directly confronting and assessing the potential for overlap and double-funding of activities via FIP and FCPF or other major donor support on REDD+ in particular. No overlap is evident, but that would be difficult to find in such a complex project that is intended to closely mirror the ERPD proposed work stream.	
A caution: The team should consider the practical implications of the FCPF ERPD sister project NOT being funded—so that FIP needs to go alone. How does that change what would be undertaken, and how the project would be managed solo? A short description of how to address this scenario would be important to add.	
<b>Comment from REDD IC Nepal</b>	
The FIP-supported projects in the proposed ER Program area supported under the FCPF can stand alone and are not directly dependent on activities identified in the ER Program. If upfront finance for identified ER Program activities are secured, REDD IC will closely work with the implementing agency to seek synergies with the FIP-supported projects.	
<b>(v) Cooperation with other actors and processes</b>	
The document thoroughly addresses this issue.	
<b>(vi) Early, integrated and consistent learning efforts</b>	
Knowledge generation and management is not very well addressed in the proposal. It does build directly on lessons learned from many prior projects. But it does not extend that methodological interest to learning and sharing in this proposal. The REDD-IC seems to have limited capacity for structured learning and dissemination, although it does share many reports and studies from the Readiness process on its website.	
The proposal would benefit from: A short section on how best to generate and share knowledge produce in the FIP implementation early with stakeholders and technical experts.	
<b>Response from REDD IC Nepal</b>	
We agree with the reviewer that knowledge generation, management and sharing is insufficiently incorporated into the FIP-IP – particularly as this has been an important issue with other past projects in Nepal’s forestry sector e.g. MSFP. However, we have incorporated some aspects of knowledge management into the FIP-IP already: (i) Knowledge sharing is included in the role of the Program Management and Coordination Unit (para 48) to ensure that lessons learned are shared across the project portfolio and more widely in the forestry sector and with a broad range of stakeholders. This is repeated in Annex 1 (para 103). (ii) At community level, knowledge management and dissemination are included as an element in the indicative DGM plan (Annex 3 Table 23) particularly in view of the importance of	

incorporating traditional knowledge and practices into aspects of sustainable forest management and watershed conservation. More detail on how this will be done will be included in the finalized DGM plan.

Overall responsibility for knowledge management will lie with the Program Management and Coordination Unit – which has a specific mandate to commission studies, manage and share information arising from all 5 projects. Particular actions which will contribute to this role for the PMCU will include: (i) web-based platforms for sharing information (including use of social media) (ii) a facility under the PMCU for commissioning of focused studies on topics of particular interest – particularly impact studies of various kinds and for disseminating the results widely e.g. impacts of changes in regulations on timber harvesting, sales and transport would be shared with political leaders and decision-makers (iii) working with the media in Nepal to stimulate better-informed debates around forestry issues and to enhance public awareness of the contribution of the forestry sector (based on empirical data) and (iv) sharing and knowledge dissemination of political leaders (especially in municipalities and states)

***Actions to be taken during detailed project preparation in response to reviewer’s comment***

The ToR for detailed project preparation process (for each of 5 projects) will include an action for (a) highlighting how knowledge will be generated by the project (b) how it will be managed and shared (particularly with other stakeholders and with other projects) and (c) what the role of the Program Management Coordination Unit will be in respect of knowledge management.

**FIP Objectives:**

***Providing up-front bridge financing for readiness reforms and public and private investments identified through national REDD readiness strategy building efforts, while taking into account opportunities to help to adapt to the impacts of climate change on forests and to contribute to multiple benefits such as biodiversity conservation, protection of the rights of indigenous peoples and local communities, poverty reduction and rural livelihoods enhancements.***

***a) To initiate and facilitate steps towards transformational change in developing countries forest related policies and practices<sup>43</sup>***

<sup>43</sup> This should be done through

- (i) serving as a vehicle to finance investments and related capacity building necessary for the implementation of policies and measures that emerge from inclusive multi-stakeholder REDD planning processes at the national level;
- (ii) strengthening cross-sectoral ownership to scale up implementation of REDD strategies at the national and local levels;
- (iii) addressing key direct and underlying drivers of deforestation and forest degradation;
- (iv) supporting change of a nature and scope necessary to help significantly shift national forest and land use development paths;
- (v) linking the sustainable management of forests and low carbon development;

Nepal is undergoing a major all-encompassing transformation in the wake of its 10+ year civil unrest, migration to a representative federal governance model, and new Constitution. This proposal pitches in and contributes to this transformation by supporting new governance models in communities via transfer of national forest lands to communities; and by providing a set of practical projects where the new shift of land management and land use planning from the federal center in Kathmandu down to the 7 new states and 753 municipalities can be piloted. This is a huge shift still underway from 10 years ago, when the monarchy controlled most activities countrywide.

Arguably, its main claim to being transformational lay in its stimulating private sector forestry in 2 of the 5 projects—this is its major contribution to being transformative. This is a major potential outcome however – if it could help shift the minor role of private forest production into a vibrant sector that produces wood products and reduces Nepal’s very heavy reliance of importation of wood from Malaysia and elsewhere.

Table 7 highlights about 5-7 transformative outcomes for each of the FIP criteria, quite generous in calling some of them transformative. Further, the proposal identifies and is built around addressing major drivers of deforestation and obstacles to increasing forest carbon stocks, to assist the movement towards a greener land use sector and economy.

One concern is: How do the REDD-IC developers decide what to term “transformative” or not? Is it simply a sales pitch to the FIP? They instead should undertake disciplined, critical thinking in the proposal – and call attention only to what is truly likely to change the way the sector works or substantially impact GHG emissions. This is admittedly very subjective, however.

***b) To pilot replicable models to generate understanding and learning of the links between the implementation of forest-related investments, policies and measures and long-term emission reductions and conservation, SFM and the enhancement of forest carbon stocks in developing countries***

Stimulating new or proven and highly replicable pilot models is the essence of the proposal. For example, it would transfer federal forest to community control in the Terai—moving the tested approach pioneered in the Middle Hills 10-20 years ago down into the politically more volatile lowland Terai, locus of the Maoist rebellion in roughly 1998-2008. It proposes to greatly expand private forest plantations, wood product development, etc. into the Terai. Project 4 would pilot watershed restoration in huge Himalayan river basins now degraded—in a country swept with such basins flowing out of the Himalaya every 50 km or so.

New or little-used financial mechanisms to be employed include leases for wood stock maintenance of community and private farmer lands, and creation of carbon emission reductions via pay for performance contracts.

***c) To facilitate the leveraging of additional financial resources for REDD, including through a possible UNFCCC forest mechanism, leading to an effective and sustained reduction of deforestation and forest degradation, thereby enhancing the sustainable management of forests***

FIP funds would total only 23% of the proposed investments into the Plan. The balance of funds would be leveraged from the national government transfers to municipalities, private sector investments, and as-yet unidentified sources. DGM funding of \$4.5m is apparently lined up if the Plan is endorsed by the FIP, and the sister proposal status of the Plan to the submitted but pending FCPF Carbon Fund ERPA investment (budgeted at \$177m overall, with other donors as well) demonstrates serious leverage.

However, the fundamental point here is: most of the funds have yet to be committed. Their fate rests in the hands of complex policy processes like FIP, FCPF, etc. IP endorsement could start the logrolling funding process.

***d) To provide valuable experience and feedback in the context of the UNFCCC deliberations on REDD***



Potential lessons pertinent to the UNFCCC deliberations on REDD include demonstrating how to raise private sector investment in REDD+ and restoration and reforestation, which is currently minimal; how community governance and participation in monitoring of REDD+ actions can be organized and become integrated into the national forest monitoring system and data; how adaptation and mitigation activities can be integrated in river basin restoration via revegetation or increasing vegetation stocking of croplands; and how to find ways to ensure and design into projects the participation of marginalized peoples and women.

**FIP Criteria (FIP design document, additions as per FIP Investment Criteria and financial modalities:**

***Identify the theory of Change behind the proposed interventions (projects) identified and how they contribute to the overall programmatic approach. Consider how the IP can also effectively meet criteria set by other funding sources, especially the Green Climate Fund, FCPF and Biocarbon Fund.***

***a. Climate change mitigation potential***

The proposed 450,00 mtCO<sub>2e</sub> of reduction in net forest carbon emissions (if that is the correct estimate, once reviewed) is only minimally significant in the Nepal context. This estimate should be checked for accuracy.

More important is the demonstration effect of: illustrating how communities can participate in creating of emission reductions for sale, how they can learn technical silvicultural techniques that are more sustainable that could be applied to upscaling of early pilots, and how to engage the private sector players via creative financial mechanisms and cooperation with banks and regulators. These elements could have positive spillover effects elsewhere in Nepal and in other contexts.

***a. Response from REDD IC Nepal***

See response under (j) above for a discussion on the costs of CO<sub>2</sub> emissions.

In response to the second part of this comment, there are several elements to be considered. Firstly, under the constitution, forest carbon has been assigned ownership at the federal level – this means that forest-carbon related transactions would be conducted at national level rather at local or state level. Therefore FIP-IP’s contributions to Nepal’s NDC and forest carbon (emissions reduction or sequestration) will be centrally reported (this being the basis for Nepal’s ERPD under preparation).

However, for other aspects e.g. private investment, financial mechanisms, CBFM groups will be able to benefit directly. Experience from Nepal’s forest sector has in the past shown a rapid uptake of successful initiatives through peer-peer learning. Ideas and initiatives generated by one user group tend to spread rapidly if there are clearly demonstrated successes. The various Federations and Associations make a significant contribution to this.

To achieve successful uptake, pilots of all kinds need to demonstrate their sustainability and utility. A good (although negative) example of this from Nepal is the limited success with community-based or community-owned forest enterprises often utilizing NTFPs. Many projects have in the past contributed to setting these up – but in most cases, they have not proved sustainable after direct project support has been withdrawn. In this case the key ingredient that is lacking has been the link to private sector capital and business capacity that would ensure their sustainability. Consequently, FIP-IP adopts a radically different model for community-private partnerships around utilization of forest resources (focusing on timber) where enterprises are not community owned or managed – but which provide markets for utilizing the products from community managed forests (especially timber). The important regulatory changes that are needed to make this work are described under Project 3.

***Actions to be taken during detailed project preparation in response to reviewer’s comment***

See under (j) above, for actions that will be incorporated into detailed project preparation.

***b. Consistency with FIP objectives and principles***

Fully consistency with FIP objectives and principles is evident in the 5 proposed projects and how they would be implemented.

***c. Drivers of deforestation and forest degradation***

<p>Numerous studies identify the key drivers of deforestation and degradation in Nepal, and the project consultations polled stakeholders as well in workshops to assay the priority drivers to address in FIP Plan design. This aspect of the proposal is very robust, and parallels academic study findings as well.</p>	
<p><b><i>d. Inclusive processes and participation of all important stakeholders, including indigenous peoples and local communities.</i></b></p>	
<p>The project process has been unquestionably very inclusive and included major stakeholders--indigenous peoples, CSOs, and local communities. Numerous recommendations from the consultations are highlighted in the text as the source of the proposed activity. Many project activities are designed to build on partnerships that already exist and function well among government agencies, local and national community organizations, NGOs, and private firms and associations.</p>	
<p><b><i>e. Demonstrating impact (potential and scale)</i></b></p>	
<p>The key impact is the demonstration effect of community active participation in generating emission reductions and participation in a pay for performance scheme as a learning and demonstration investment. Again, showing that it is possible to figure out how to engage the relevant private sector players via creative financial mechanisms and cooperation with banks and regulators is by far the most compelling impact of this proposal.</p>	
<p><b><i>f. Forest-related governance</i></b></p>	
<p>Commitment to advancing forest governance by communities is the essence of project 1 and strongly contributes to projects 2 and 3. Governance innovations developed in the Middle Hills are being transferred to the recently conflict-ridden Terai zone—which was finally able to hold municipal elections in October 2017 for the first time since 2008. Proposed indicators of performance include the number of municipalities that put multi-stakeholder forest governance structures in place; number of states with revised regulations re timber harvesting sales and utilization; number of CBFM groups with enhanced representation of women and IPs, etc.</p> <p>Land tenure is repeatedly noted as a major constraint to extending the role of communities in management of lands, and is somewhat addressed in the proposed activities. The proposal developers may want to reconsider how much funding and energy they devote to addressing tenure: Is the current low amount the optimal solution? -- Or should more work occur on rationalizing tenure? Is FIP the right vehicle for such work or not?</p>	
<p><b><i>g. Safeguarding the integrity of natural forests</i></b></p>	
<p>Few if any activities that might threaten the integrity of natural forests are included. Conversely, the proposal funds many activities that would reduce deforestation and degradation of natural forests.</p>	
<p><b><i>h. Partnership with private sector</i></b></p>	
<p>As repeatedly stated above, the involvement of the private sector and the proposal's commitment to inventing ways to bring the private finance into production of forest products via creative financial mechanisms and revised regulations is perhaps the most important part of this proposal.</p>	
<p><b><i>i. Cost effectiveness, incl. economic and financial viability</i></b></p>	
<p>Assessment of the potential private sector involvement in community and private farmer afforestation, and the high demand for wood products (now imported), suggests that production of timber and forest products and byproducts could have high rates of return in Nepal. Little information is included on this however and apparently no financial analysis has been performed and presented. The calculations of the cost of forest emission reductions indicate that this would not be very cost effective, but those estimates may need to be reviewed and revised. If the CO2 benefits estimate is revised, it would impact this estimate as well.</p> <p>The proposal would benefit from a short additional section or simple table summarizing what is known about the cost effectiveness of the major project activities.</p>	
<p><b><i>Response from REDD IC Nepal</i></b></p>	
<p>Much of the rationale and opportunity for involvement of the private sector in timber production and utilization was derived from the analytical report produced as part of the FIP-IP design and the information contained in it. This report will shortly be available on the Nepal FIP-IP website linked to Nepal's REDD-IC site. The document is fully referenced.</p>	
<p>In practice, there have been many studies and consultations undertaken in Nepal which have shown (i) that private entrepreneurs see potential financial returns for investment in Nepal's timber industry and</p>	

that import substitution would benefit Nepal's overall economic position: (ii) their current lack of involvement is due not to the lack of potential financial returns but to the over-regulation and control of timber harvesting, sale, transport and utilization which although aimed at reducing illicit and illegal timber harvesting tends to exacerbate this by reducing transparency and making legal timber harvest, sale and utilization a complex and time consuming bureaucratic process. Finally (iii) the financial institutions in Nepal are wary of the forest sector (again due to the perceived over-regulation and control) and have little incentive to give loans for start-up and investments – particularly when compared to other productive sectors such as agriculture. Again, discussions with Banks and financial institutions have shown that they are willing to give such loans – but have seen little reason to do so in the past in view of the unfavorable enabling environment and the availability of more straightforward and less risky alternatives. One large furniture industry entrepreneur mentioned that the greatest constraint to expanding the business and utilizing more Nepal-grown timber was the Ministry of Forests!

**Actions to be taken during detailed project preparation in response to reviewer's comment**

*During the detailed preparation of the individual projects, costs and benefits will be calculated in more detail – this task will be incorporated into the ToR for those organisations responsible for the design of projects.*

**j. Capacity building**

Capacity building is central to the proposal. Training in silvicultural techniques for sustainable forest management, selection of preferred tree species for site conditions, the economics of private forest production and markets, post-harvest manufacturing of higher-value wood products like furniture, and institutional management for CBFU groups are all highlighted in the proposal. Further, private credit line access to banks, revised regulations regarding wood production, sale, transport and manufacturing of wood would be a focus of analysis and investigation.

**Additional criteria FIP Investment Criteria and financial modalities:**

<p><b>k. Implementation potential</b></p>		<p>Implementation potential seems very manageable overall, since the main agencies involved and the community groups they would be working with are all old hands at the types of work envisioned. Most community use groups have existing bank accounts to receive and manage funds, for example.</p> <p>What is new however will be the decentralization of the authority for land management to the municipalities—which are new to some of the tasks and the skills it will demand. Assuming this process goes reasonably well, then the long track record in Nepal of transferring forest lands to communities, of having highly functioning community user groups manage complex field operations and budgets, etc. should be manageable.</p>
<p><b>l. Integrating sustainable development (co-benefits).</b></p>		<p>Table 12 summarizes a vast array of co-benefits, including benefits related to livelihoods and poverty, biodiversity conservation and other environmental service provision, economic development, and forest-sector governance. These are broken down by the 5 projects.</p>

**(2) Assessment towards the FIP results-framework**

Results	Indicator	Comments	Score
<p><b>CI. Reduced pressure on forests</b></p>	<p>a) Change in hectares (ha) deforested in project/program area</p>	<p>Indicator is measurable. The concepts that link the selected activities with the indicator seem reasonable.</p>	
	<p>b) Change in hectares (ha) of forests degraded in project/program area</p>	<p>Measurable. The lands and activities are well described.</p>	

	<i>c) Percentage (%) of poor people in FIP project area with access to modern sources of energy</i>	Measurable. Though the projects do not focus much on this indicator. Changes in fuelwood supply from plantations are considered an indicator.	
	<i>d) Non-forest sector investments identified and addressed as drivers of deforestation and forest degradation</i>	Main drivers of deforestation and degradation are well detailed and the activities are built to address them. Project 4 on ecotourism directly addresses non-forest investments and activities driving deforestation for new infrastructure.	
<b>C2. Sustainable management of forest and forest landscapes to address drivers of deforestation and forest degradation</b>	<i>a) Preservation of natural forests integrated in land use planning process</i>	The proposal's project 4 features introducing land use planning to avoid deforestation of natural and other forests. Projects 1-3 would slow deforestation including of natural forests, but new protected area creation is not envisioned.	
	<i>b) Evidence that laws and regulations in project/program areas are being implemented, monitored and enforced and that violations are detected, reported and prosecuted</i>	Project 1 includes such activities, as does project 3 on private sector land production, which also proposes revisiting forest regulations that stifle private forestry. Government agency/community partnerships are central to all 5 projects.	
<b>C3. A institutional and legal/regulatory framework that supports sustainable management of forests and protects the rights of local communities and indigenous peoples</b>	<i>a) Evidence that the legal framework (laws, regulations, guidelines) and implementation practices provide for non-discriminative land tenure rights and land use systems and protect the rights of indigenous peoples and local communities (women and men)</i>	No standalone activities are proposed that would address land tenure. Tenure is repeatedly discussed in consultations and as an important enabling condition, however. The project is urged to consider adding including one or more activities devoted to clarifying tenure.	
	<i>b) Evidence that a national land use plan exists and progress is made to secure the tenure and territorial rights to land and resources of forest-dependent stakeholders, including indigenous peoples and forest communities</i>	Nepal is beginning to implement land use planning in all 753 municipalities over the next several years via the Ministry of Local Development. LU planning is central to project 4 on steering ecotourism development. Tenure is routinely assessed, has been included in the new Constitution, and some activities are dedicated to helping clarify tenure nationwide. But it remains a challenge operationally in the post-conflict transition environment.	

<p><b>C3a. Response from REDD IC Nepal</b></p>	<p>It is unclear exactly to which part of the FIP-IP the remarks (a – above) about land tenure are addressed. FIP-IP actions in different projects will take place on different land types for which the tenure arrangements are also very different. For example, Project 3 is entirely on private land; Projects 2, 4 and 5 are entirely on land under CBFM whilst Project 1 encompasses mostly land under CBFM but also some land under municipality control (so-called public land in the Terai). Even within the areas under CBFM, there are several different models with different tenure arrangements e.g. community forest, collaborative forest, leasehold forest. Land tenure is therefore a complex and multi-faceted aspect of Nepal’s forestry sector which has evolved in different situations in response to different geographical and socio-economic contexts. There is therefore no single clarification of land tenure that would fit with all situations.</p> <p>An additional complication results from the directions and implications of Nepal’s new constitution which focuses more on natural resource product rights (benefits and responsibilities) rather than forest land tenure. In the forest sector the government is still working through the ongoing and likely future issues regarding rights (to forest under different management modalities) e.g. boundary issues and benefit sharing issues, and the unpacking and clarifying of rights to use and benefit from forests based on the constitution (forest is a concurrent issue between local, state and federal governments). It is expected that these issues will take time to resolve. The aim of FIP-IP is to ensure that IPs and local communities benefit as much as possible from forest resources within the legal framework of the new constitution – and to support processes and capacities that ensure that this happens.</p> <p>Some activities aimed at clarifying land tenure have already been incorporated into the project. For example, under Project 3 landowners will be supported to register their plantations as private forest – this will simplify the process of utilizing the products of plantations established.</p> <p>Land tenure in Nepal with respect to IPs is a highly contested and so far, unresolved issue that has significant political implications. Whilst IPs claim a-priori rights to forest land – including land already under CBFM, this is contested by the many existing CBFM groups and also by the legal provisions of the Forest Act which emphasises equitable inclusion of households on the basis of forest use and need. Nepal’s constitution does not make specific provision for land tenure rights by IPs – but at the same time it does emphasise the importance of social inclusion and equity. Forestry groups themselves are supported to share benefits on this basis. This has been a pragmatic means to ensure that some of the most socially disadvantaged groups in Nepal – particularly Dalits, Madheshis and women can benefit from CBFM (none of these groups are classed as IPs in Nepal). In practice CBFM groups are empowered to share benefits in an inclusive way that will benefit the most disadvantaged people (including IPs) and this has been a successful element of Nepal’s forestry program over the past 3 decades. At present there is little grass roots demand to focus more on tenure rights under the different CBFM modalities – especially whilst 100% benefits (under community forestry) already flow to the groups. However, land tenure issues are occasionally raised as a means to gain political leverage by different groups. During the extensive consultation process for FIP-IP (Annex 2) land tenure issues were not specifically raised – although there was frequent reference to addressing unfair benefit distribution or to social exclusion/discrimination. These issues will be addressed through the actions identified under F (above) – which have proved to be more effective.</p> <p>Efforts will be made at both policy and community levels for improved forest tenure system. Representatives of IPs will be included in decision making fora of FIP projects for policy decisions, while at the same time, CBFM groups will be encouraged to include IPs in leadership positions (which have already been</p>
--	--

	initiated in some community forests) so benefits can be equitably shared. Likewise, the DGM fund can also be utilized for studies on forest and land tenure of IPs that recommend evidence-based suggestions for tenure improvement.		
<b>C3a. Actions to be taken during detailed project preparation in response to reviewer's comment</b>	See the actions mentioned under (F) above for addressing issues of social exclusion and benefit sharing. These specific activities will be included in the detailed preparation of the 5 projects.		
<b>C3b. Response from REDD IC Nepal</b>	Land use planning by the 753 municipalities has not yet started although under the new constitution, municipalities have a clearly mentioned responsibility and mandate to prepare local land-use plans. In the short term, there will be many capacity gaps for doing this until municipality governance structures are fully operational. Also, there are likely to be other, more pressing priorities for the newly elected municipalities to address. Land-use planning is however important and Project 4 does provide an opportunity to pilot land use planning with municipality authorities. This is expected to be a transparent and participatory process from which lessons can be learnt to upscale it to the many other municipalities. At the local government level land-use planning is likely to be potentially less contested than at provincial and state levels since it is at local level that competing sectoral interests and those of different stakeholders can be more readily resolved through pragmatic local solutions. Experience has shown that land use-planning tends to become rather strategic at the higher levels leaving detailed interpretation of 'strategic land use plans' to the grass roots level.		
<b>C3b. Actions to be taken during detailed project preparation in response to reviewer's comment</b>	It is not proposed to pilot land-use planning across all FIP-IP municipalities. This would be a huge task – and not within the scope of investments solely in the forest sector as there are important cross-sectoral needs and constraints. However, Project 4 has been developed to put the municipality authorities into the leading role for land-use planning in a few (10) pilot locations – in order to develop sustainable tourism land-use plans that address the specific drivers of deforestation and forest degradation of unplanned infrastructure development. Project 4 will be prepared by piloting a land-use planning approach that will later be widely applicable across other municipalities. This will be reflected as an output of this Project (as a set of planning guidelines/manual and enhanced skills of facilitators)		
<b>C4. Empowered local communities and indigenous peoples and protection of their rights</b>	a) Increase in area with clear recognized tenure of land and resources for indigenous peoples and local communities (women and men)	As noted above, this proposal only indirectly addresses this, and should consider doing more.	
	b) Level and quality of community and indigenous peoples' participation (women and men) in decision making and monitoring concerning land use planning, forest management, and projects and policies impacting community areas	Many proposed activities would increase community and indigenous peoples' participation in decision-making. This is a highlight of the proposal. Inclusion of women is especially prominent.	
	c) Improved access to effective justice/ recourse mechanisms	Grievance resolution mechanisms are discussed, but are not central to this proposal.	
<b>C4a. Response from REDD IC Nepal</b>	In practice, the FIP-IP will increase the area covered by recognized tenure for IPs and other disadvantaged groups – with expansion of areas under different CBFM models. For example, Project 1 will include the establishment of new CBFM groups for forest areas not yet handed over (the exact area will be determined during the project preparation process) which will establish clear tenure rights depending on the type of forest management modality (community forest,		

	collaborative forest or leasehold forest). In addition, it is expected that Project 3 will involve the registration of up to 10,000 ha of private forest which will enable owners to harvest and sell forest products including timber with less restriction. In all cases the existing and traditional practices of IPs and communities will be respected and will be institutionalized in forest management plans of various kinds – that has been the required practice for the past 2 decades under existing procedures.	
<b><i>C4a. Actions to be taken during detailed project preparation in response to reviewer’s comment</i></b>	The project preparation (for all 5 projects) will be carried out in a way that continues the established practice of local consultation with a range of different stakeholder groups and with a focus on socially excluded groups such as IPs, women, Dalits and Madheshis. All models of CBFM in Nepal as designed to be socially inclusive and to safeguard the rights of all forest users. Where issues around this are raised during detailed project preparation, actions will be included in projects to address these. Enhancing tenure rights is potentially an important means for doing this – but in Nepal’s context this must be considered in the light of the requirements and priorities of all disadvantaged groups including (but not limited to) IPs.	
<b><i>C4c. Response from REDD IC Nepal</i></b>	This is a valid comment - grievance mechanisms will be developed at 2 levels within FIP-IP (i) at the program level and (ii) at the level of individual CBFM groups involved in FIP-IP projects.  The structure of local government under the new constitution does include the Judiciary Committee which aims to address local grievances. As far as possible, FIP-IP will utilize and support this system as part of the wider support provided for the activities required under each of the five projects.	
<b><i>C4c. Actions to be taken during detailed project preparation in response to reviewer’s comment</i></b>	At the program level a grievance mechanism will be incorporated into the design and function of the PCMU (discussed in Annex 1 paras 102-103). This will include a system that allows grievances to be raised and brought to the attention of the program (confidentially if necessary) and a mechanism for decision-making regarding specific grievances raised. Opportunities for utilizing social media and other web-based platforms for this will be explored. Project preparation ToR will include the design of these systems.  At local level (CBFM groups) there are in many cases grievance mechanisms already in place (usually defined in the individual group constitutions) including such actions as public auditing and public hearings. During project preparation (for all 5 projects) an assessment will be made of these existing mechanisms and actions will be put in place to address any issues identified. An important aspect is likely to be the capacity, skills and willingness of group leaders to conduct such grievance mechanisms. If required this can be strengthened through actions aimed at strengthening CBFM group governance and also through the resources available from DGM that will build capacity of disadvantaged groups to voice their grievances.  Under the new constitution, elected leaders of municipalities will be made accountable for delivery of government services. Many projects (not necessarily in the forest sector) in Nepal are now proposing to work with elected leaders – where opportunities arise FIP-IP will build on and/or adopt the grievances mechanisms relating to accountability to citizens that are being developed for local government.	
<b>C5. Increased capacity to plan, manage and finance solutions to address direct and underlying drivers of deforestation and forest degradation.</b>	Very strong on this capacity.	
<b>C6. New and additional resources for forest projects</b>	Leverage factor of FIP funding; \$ financing from other sources (contributions broken down by governments, MDBs, other  FIP funding is proposed to be complemented by funds from the national government, communities, the private sector	

	multilateral and bilateral partners, CSOs, private sector)	FCPF Carbon Fund, the FIP DGM, and as yet unidentified other sources. However, all of these funding sources need to be further pursued; none are committed yet.	
<b>C6 Response from REDD IC Nepal</b>			
<p>During FIP-IP preparation, discussions took place with a number of potential donors or donor representatives. All were interested and supportive of the FIP-IP concept even though not necessarily being involved in the forest sector (or associated sub-sectors) at present. Table 10 lists potential FIP-IP collaborators – although none of these has reached a stage of being able to make firm commitments. It is anticipated that subsequent to FIP-IP approval there will be significantly renewed interest amongst potential collaborators - including from some sources for which projects are already being developed e.g. GCF, IDA, FAO and DFID. In addition, FIP-IP will contribute to investing in some of the activities under Nepal’s ERPD – which can be expected to strengthen further leverage of funds for this from other sources and other sectors e.g. from hydropower sector for watershed rehabilitation and for eco-tourism development.</p> <p>Estimated contributions from the Government of Nepal and communities as well as private sector investors are quantified and shown in Table 15. These indicate that there are significant commitments from within Nepal to support the proposed investments. These figures are based on existing practices and are considered to be realistic estimates.</p>			
<b>Actions to be taken during detailed project preparation in response to reviewer’s comment</b>			
<p>Following endorsement of the FIP-IP the process of consultation with the broad group of stakeholders (including development partners and potential donors) established already will continue. Having the indicative FIP-IP approved and available is very likely to be a strong incentive for donors to continue to engage and the possibility of leveraging additional investment (often on the basis of matching funding arrangements) is considered likely.</p>			
<b>C7. Integration of learning by development actors active in REDD+</b>	<i>Number (#) and type of knowledge assets (e.g., publications, studies, knowledge sharing platforms, learning briefs, communities of practice, etc.) created and shared</i>	The proposal stresses lessons learned from other prior projects and REDD-IC has shared many reports for the REDDP Readiness process. But the proposal does not explicitly address knowledge generation and management looking forward. It should do so, however.	
<b>C7 Response from REDD IC Nepal</b>			
<p>We agree with the reviewer that knowledge generation, management and sharing is insufficiently incorporated into the FIP-IP – particularly as this has been an important issue with other past projects in Nepal’s forestry sector e.g. MSFP. However, we have incorporated aspects of knowledge management into the FIP-IP already: (i) Knowledge sharing is included in the role of the Program Management and Coordination Unit (para 48) to ensure that lessons learned are shared across the project portfolio and more widely in the forestry sector and with a broad range of stakeholders. This is repeated in Annex 1 (para 103). A dedicated M&amp;E will be established as part of the PMCU. (ii) At community level, knowledge management and dissemination are included as an element of the indicative DGM plan (Annex 3 Table 23) particularly in view of the importance of incorporating traditional knowledge and practices into aspects of sustainable forest management and watershed conservation. More detail on how this will be done will be included in the finalized DGM plan.</p> <p>Overall responsibility for knowledge management will lie with the Program Management and Coordination Unit – which has a specific mandate to commission studies, manage and share information arising from all 5 projects.</p>			



<b>Actions to be taken during detailed project preparation in response to reviewer's comment</b>
The ToR for detailed project preparation process (for each of 5 projects) will include an action for (a) highlighting how knowledge will be generated by the project (b) how it will be managed and shared (particularly with other stakeholders and with other projects) and (c) what the role of the Program Management Coordination Unit will be in respect of knowledge management.

### **Part III: Conclusions and Recommendations**

#### *Overall assessment of the Investment Proposal*

Nepal has produced a proposal that is an excellent candidate for FIP funding. Nepal has world-renown community forestry management outside of the target Terai ecoregions; a strong tradition of consultations; high biodiversity. It has emerged from almost two decades of political strife committed to its ongoing political transformation into a democratic society. The private sector elements of this proposal are very innovative and not widely in use elsewhere for REDD+-. So this proposal could launch Nepal off a FIP and REDD+ springboard into a fundamentally redrawn role for the private sector in land use management.

Of course, major challenges abound. The political transition further stresses barely operational municipalities and federal agencies with limited staff and funding. The proposal would benefit from a tightening of its site selection criteria so that it is more co-located with other REDD+ activities and is feasible to implement and monitor. But the FIP proposal is designed to build on existing strengths and to avoid the most egregious limitations. It could strengthen forest incentive programs, shift more forest land to proactive management by communities, and explore how to manage ecotourism and degrading watersheds. Most importantly, FIP funds are needed to make certain that Nepal's ambitious gamble on REDD+ in its Readiness program and its FCPF ERPD proposal will be implemented and will work.

Overall, the reviewer assessed a total of 48 criteria and indicators with the following scoring:

<b>35</b>	<b>The criteria and/or indicator has been generally met and there is no need for any revision or larger complement at this stage</b>
<b>13</b>	The criteria and/or indicator is partially met, it is recommended to relook at some of aspects that need further clarification
<b>0</b>	The criteria and/or indicator is partially met and need to be developed [or, at the current stage the criteria is not relevant]

#### **Some recommendations that could enhance the quality of the investment plan:**

**1. Seriously entertain reducing the proposal's geographic and thematic scope.** Alternatively, it could concentrate on early pilot areas to demonstrate innovative interventions. Currently there are so many areas and activities that the management challenge will be paramount. E.g, projects 4 and 5 on ecotourism and watersheds are a bit on the margin re the focus on supporting REDD+ rollout in Nepal, and are targeted for areas not involved in the other projects. Some current activities may need to be eliminated or downscaled to assure successful implementation of the ones more central to the portfolio.

<b>Response from REDD IC Nepal</b>
Projects 1-3 are large scale projects aimed at generating maximum impact. Both projects 4 & 5 are smaller-scale pilot projects with potential (if successful) for scaling up. Although the FIP-IP has a broad geographical scope, this is necessary to address in any meaningful way the drivers of deforestation and degradation across the country and to generate co-benefits for target communities. Even though FIP-IP does support 2 of the key interventions from Nepal's ERPD, it is recognized that ERPD only covers 12

Terai districts. Limiting FIP-IP to the same few districts as ERPD is politically unacceptable and will not be able to address non-Terai drivers of deforestation and forest degradation. However, within the broad geographical areas indicated for the 5 projects, actions will be concentrated into specific landscapes that will be identified through further consultation and analysis during project preparation. This will ensure that measurable impacts are generated by each project.

The second implied in this review comment – i.e. that the IP is broad and will therefore be difficult to implement is accepted. However, Nepal has considerable experience with managing complex programs (as opposed to geographically limited projects) and there are various modalities available for doing this. Implementation mechanisms for FIP-IP have not yet been fully described – although some indications are given in Section 5.2 and in Figure 8. They will be fully worked out during the project preparation phase. Certain key principles are however clear:

- i. Once the detail projects are in place, Nepal's FIP-IP will not be implemented by REDD IC. Given the scale and geographical coverage it will be necessary to implement it under the overall coordination of the Ministry of Forests and Soil Conservation through a dedicated PMCU
- ii. Implementation mechanisms for the 5 projects may differ according to specific project requirements. These will be developed during the detailed project preparation process and may involve different implementing agencies under the overall coordination of MFSC
- iii. The importance of implementing Nepal's FIP-IP through the new 3-level federal structure is strongly emphasized. Whilst this may be challenging (at least initially) this is an important transformative aspect of FIP-IP signalling a new way of operating in a more democratic and transparent way. All projects will be designed with a strong element for capacity building to enable local accountability structures and local skills to be strengthened. It is not expected that FIP-IP will be implemented as a large and unwieldy 'project' with separate project staff working in parallel and potentially undermining government structures and processes).

***Actions to be taken during detailed project preparation in response to reviewer's comment***

Two important elements will be incorporated in the design of the 5 proposed projects and the overall program management and coordination structure:

- i. Consultations will take place with a range of stakeholders (including GoN and donors) to develop the overall program management structure in line with the key principles above. Also taking into account lessons from the recently ended MSFP and seriously considering the implications of Nepal's new federal structure. Whatever coordination and management mechanism is agreed will have important implications for further funding through Nepal's forestry sector – especially from REDD+ and may in practice be the same structures. The aim would be to establish a small, semi-autonomous, flexible and high capacity program management structure that enshrines good governance principles and is consistent with the needs of the FIP-IP and Nepal's transformed political structure.
- ii. For each of the 5 projects, the detailed preparation will include designing an appropriate implementation mechanism that will support effective project delivery broadly in line with Figure 8. This will include developing indicative ToR for any implementation agencies that are required. Again, the principle of working through and supporting capacity for delivery through new governance structures will be applied.
- iii. Consideration will also be given to the possible implementation together of 2 or more of the proposed projects in order to facilitate more cost-effective project management. Where there is geographical overlap – it would not be wise to have 2 implementing agencies working since this will result in duplication of effort. It would appear that despite the likely lack of capacity at municipality level, it is at this level that delivery of more than one project could be possible. This will be further explored during project preparation.

**2. The proposal would benefit from more specificity on where the projects would be undertaken.** Eg, it could easily offer 1-2 examples of promising districts or watersheds for each project; and a phrase here and there on what would occur where, without constraining

the project to any location. This would enhance the credibility of the proposal and the knowledge of field conditions that has gone into it.

***Response from REDD IC Nepal***

The absence of specific geographical locations is deliberate. The maps for each proposed project show the indicative areas. Actual project locations within these will be the outcome of further consultations at multiple levels during detailed project preparation.

***Actions to be taken during detailed project preparation in response to reviewer's comment***

During preparation of each project, criteria will be applied and further local consultations will be undertaken to identify specific locations for the investments. This will be part of the task of the organisations contracted to prepare the projects. Emphasis will be placed on generating landscape level impacts within the broad geographical areas indicated by concentrating activities and impacts and in order to facilitate cost-effective project management.

**3. Monitoring:** The current geographic scattering of activities is likely to make monitoring a huge challenge and costly for anything that cannot use inexpensive remote sensing methods. This limitation needs to be further considered.

***Response from REDD IC Nepal***

FIP-IP monitoring (against the expected results) will be at 3 levels each with a different purpose. Monitoring at program, project and CBFM group levels will be conducted at that level and by utilizing information gathered at that level:

Overall program monitoring will be the responsibility of the Program Management and Coordination Unit. The aim of this will be to assess the contribution of each project to the program outcomes (Table 17 – section C) and to use this information (generated by each program individually) to make an assessment of overall FIP-IP impact

Project level monitoring will be the responsibility of each project implementing agency with results indicators defined under each project description in Annex 1 (additional indicators may be added during project preparation) and using information gathered from the project area

Local level monitoring by CBFM groups – largely a participatory process focusing on socio-economic and other outcomes and using locally defined results indicators.

At all levels, monitoring will be integrated with the local government monitoring structures and needs

Consequently – not all the task of monitoring will fall to a single agency and only information needed for program results monitoring will be gathered and reported.

In addition, consideration will be given to incorporating FIP-IP monitoring need with the new local government structure and to provide capacity support for those involved.

***Actions to be taken during detailed project preparation in response to reviewer's comment***

Project preparation will include the development of monitoring systems (at these 3 levels) and will include the indicators that will be monitored, the means of verification (tools and methods) and the responsible agencies. In addition, each project will require a baseline assessment to identify and quantify baseline indicators against which each project's progress will be assessed. The baselines will be conducted as part of the detailed project preparation and this will be reflected in the ToR for the organisations carrying out the preparation for each project.

**4. Define how pro-gender and pro-poor recruitment would occur:** The proposal regularly uses a common mantra that marginalized groups and women would be targeted for activity X... but does not indicate how it would accomplish attracting them to participate. How would they be encouraged to join and to stay in activities? A few sentences on this would improve the credibility of these claims.

***Response from REDD IC Nepal***

The FIP-IP document does not go into detail because this is seen as a key task for the project design that will follow. Section F (above in this Annex) identifies the broad approach to ensuring gender and social inclusion and equitable benefit sharing that will be applied across all projects. This goes much beyond simply identifying means for “marginalised and women ... to be attracted and participate in the program”. The broad approach taken is to build capacities and governance structure so that representatives from these groups can actually come into decision-making and leadership positions within forestry institutions (especially in CBFM groups) so that they can better voice their own needs and make their own decisions regarding benefit-sharing. In practice, good social mobilisers and facilitators are available in Nepal to apply appropriate tools and methods for doing this. The provision of having at least half of the committee members including chairperson and/or secretary as women in community forestry will be made more effective and will be replicated in other CBFM groups. Similarly, inclusion of IPs in the leadership position in CBFM groups will be encouraged. Specific programs aiming at socially and economically empowering women, IPs and local communities will be designed during detail project formulation and implemented.

In addition to FIP-IP programs, the DGM will particularly be involved in empowering, building capacity and raising awareness amongst IPs and local communities including women, Dalits, Madheshis and other marginalized groups. The DGM plan will therefore be a means for directly complementing the actions in the FIP-IP. For example, DGM finance can be used to build capacity of disadvantaged households so that they are able to compete more effectively for employment opportunities generated e.g. by Project 3.

***Actions to be taken during detailed project preparation in response to reviewer’s comment***

Each project will identify a set of actions that will be supported to enhance capacity development, awareness and ‘voice’ of representatives of marginalized groups to enable them to reach leadership and decision-making positions. In many cases such activities will be made consistent with actions proposed for the DGM. In addition, each project will also identify actions for strengthening CBFM group governance including ensuring effective participation of all groups, transparency and accountability. This will provide opportunities for more equitable benefit sharing and decision-making by these groups.

**5. The titles of some projects should be carefully reviewed to make them seem more related to the other projects** and thus more pertinent to the portfolio. Eg project 4 could be retitled something like: “Reducing Impacts of Unplanned Infrastructure Development Through Nature-Based Tourism”, since the current title begs the question of why it is included? Project 5’s title is vague, so perhaps something like: “Revegetation of Degraded River Valleys for Water Conservation” ... to link it to the first 3 projects a bit.

***Response from REDD IC Nepal***

Project titles have been the subject of considerable discussion already during the FIP-IP preparation process. However, it is agreed that they need to clearly reflect the overall project emphasis and approach and that if this is not clear then they should perhaps be changed. At this stage it is not proposed to change any project title – but that this should be the basis for and open discussion during the next stage of stakeholder consultation. Project preparation can also be used as an opportunity to re-open a discussion on project titles. However, the suggestion from the reviewer will be kept in mind during the facilitation of the projects design.

It is proposed that the stakeholder group that has met several times so far during FIP-IP preparation will

continue to do so as the individual projects are being prepared. The issue of project titles can be raised and discussed during these workshops.

***Actions to be taken during detailed project preparation in response to reviewer's comment***

Options for revising project titles will be raised during future stakeholder workshops. The design teams for individual investment project preparation will also be encouraged to revisit the titles and (if appropriate) come up with alternatives for consideration.

**6. Please put page numbers on every page. It is a difficult document to read.**

***Response from REDD IC Nepal***

The FIP-IP document submitted for review included page numbering (in addition to paragraph numbering)

***Actions to be taken during detailed project preparation in response to reviewer's comment***

The final version of the FIP-IP will be fully formatted and will include all the requirements necessary for making it a useable document.

**7. Suggest you think through how FIP would be implemented as a standalone project if the FCPF ERPD is not approved by FCPF. Competition is significant in FCPF's Carbon Fund.**

***Response from REDD IC Nepal***

The FIP-IP can be implemented as stand-alone project in the event that ERPD is not approved, and it has been designed with this in mind. Once the ER Program is in implementation modality, coordination will be essential, and synergies can be generated.

***Actions to be taken during detailed project preparation in response to reviewer's comment***

Since REDD IC is coordinating not only the FIP but also the ER Program, the coordination between the two programs will continue moving forward.

**8. Think through how to promote knowledge management of early lessons learned from FIP, given limited resources. These would be very valuable to other countries and throughout Nepal, since many FCPF or other results based payment projects will be slow to start and produce results. Perhaps you could offer a small program of graduate student internships to write REDD-IC-defined products and undertake masters' studies relevant to the FIP program?**

***Response from REDD IC Nepal***

As part of the role of the PCMU it is proposed to organize annual stakeholder meetings to review FIP-IP progress, share lessons and identify challenges and opportunities.

***Actions to be taken during detailed project preparation in response to reviewer's comment***

The inclusion of knowledge sharing as a functional role of the PMCU has already been mentioned. This may be through a variety of methods such as web-based content and social media as well as more formal involvement in conferences and similar.

In addition, since there are now a number of FIP-IP countries and South-South sharing, opportunities will be explored for work exchanges – to enable Nepali expertise and experience from government and elsewhere to contribute to FIP-IP in other countries and vice versa.

**9. Work to engage the DGM** and to coordinate the potential funds and activities DGM could bring into the project or parallel to it. This could become an additional source of funds, consultation processes, knowledge management of lessons learned, etc.

***Response from REDD IC Nepal***

Annex 3 covering the DGM provides details on how the larger FIP investments will be coordinated with the DGM and shows how DGM and investments are complementary and mutually enhancing. The DGM is an essential contribution to ensuring that FIP-IP can deliver the planned results since it essentially focuses on local capacities – which are a critical factor.

***Actions to be taken during detailed project preparation in response to reviewer’s comment***

Some specific elements of FIP-IP management will safeguard the required level of coordination between FIP and DGM including the presence of GoN (from REDD IC) as an observer to the DGM process. Additionally, REDD IC will organize stakeholder meetings that will include IPs and local communities and updates on FIP-IP progress will be shared at these events.

All the FIP projects will be prepared consistent with Bank policies on stakeholder engagement and consultation. IPs and local communities will be consulted during project preparation for all five projects

Main document reviewed:

- Forest Investment Plan for Nepal: Investing in Forests for Prosperity at a Time of Transformation, Draft dated October, 2017. 117 pages.

Additional documents consulted:

General CIF documents:

- FIP Design Document (July 2009)
- FIP Investment Criteria and Financing Modalities (June 2010)
- FIP Results Framework (May 2011)

FIP Revised procedures for the preparation of independent technical reviews of the FIP Investment Plans (March 16, 2016)

**Annex 6:**

## **FIP Steering Committee members**

Chair : Mr Prakash Mathema, Secretary, Ministry of Forests and Soil Conservation

Member, Mr Baikuntha Aryal, Joint Secretary and Chief of International Economic Assistance Coordination Division, Ministry of Finance

Member, Dr Ram Prasad Lamsal, Joint Secretary and Chief of Climate Change Management Division, Ministry of Population and Environment.

Member, Mr Biju Kumar Shrestha, Joint Secretary, National Planning Commission

Member: Dr Pem Narayan Kanel, Joint Secretary and Chief of Planning Division, Ministry of Forests and Soil Conservation

Member, Mr Dhananjaya Paudel, Joint Secretary and Chief, Foreign Aid Coordination Committee

Member, Mr Chandra Man Dangol, Joint Secretary and Chief, Forest Enterprises and Management Division, Ministry of Forests and Soil Conservation

Member Secretary, Dr Sindhu Prasad Dhungana, Joint Secretary and Chief, REDD Implementation Centre, Ministry of Forests and Soil Conservation

## **Officers actively involved in designing of the Investment Plan from the REDD IC**

1. Dr Mohan Poudel, Under Secretary
2. Mr Ajaya Manandhar, Under Secretary
3. Mr Mohan Chandra Biswas, Under Secretary
4. Mr Shyam Karki, Account Officer
5. Ms Srijana Shrestha, Assistant Forest Officer
6. Mr Hari Pandey, Soil Conservation Officer
7. Mr Hari Krishna Laudari, Assistant Forest Officer



## **Annex 7: Experts of the Consulting Team Involved in Designing of the Investment Plan**

Environmental Resources Institute (ERI), Nepal was the consulting firm selected to develop the Forest Investment Plan for Nepal. The experts of the consulting team were:

1. Dr Yadav Prasad Kandel: National Team Leader and Forestry Expert
2. Peter Branney: International Coordinator (Directly hired by the World Bank), International Forestry Consultant
3. Shambhu Prasad Dangal: Climate Change and REDD+ Expert
4. Dr Rajesh Rai : Environmental/Forest Economist
5. Ms Dibya Gurung: Gender and Social Inclusion Specialist
6. Basanta Lamsal: Private Sector Investment Expert
7. Dil Raj Khanal: Legal and Policy Analyst
8. Manish Kosh Shrestha: GIS Expert

### **Other professionals who supported the team for the consultations include:**

1. Ms Tikeshwari Joshi
2. Kiran Timalina
3. Gopal Kafle