

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC71658

Project Name	
Region	SOUTH ASIA
Country	Nepal
Lending Instrument	IPF
Project ID	P160523
Borrower Name	Government of Nepal represented by Ministry of Finance
Implementing Agency	Ministry of Forestry and Soil Conservation
Environment Category	C - Not Required
Date PID Prepared	24-Aug-2016
Estimated Date of Approval	20-Sep-2016
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Nepal's economy has grown steadily even during the height of the civil war as economic management remained prudent. Since the end of the civil war, Nepal has gone through a long and difficult political transition, culminating with elections of new constituents and the approval of a new Constitution. The political process has been challenging but the Government is starting to shift its attention to the economy.

Despite very challenging circumstances, Nepal managed to halve the percentage of poor people living on less than \$1.25 a day in a relatively short time. This puts Nepal ahead of its neighboring countries, India and Bangladesh in terms of poverty reduction. Overall, Nepal performed relatively well on the MDGs, especially those related to health and education. Enrollments in primary education have reached 95 percent, gender parity has been achieved and disparities across disadvantaged ethnic/caste groups have decreased significantly. In health, the maternal and infant mortality rates have decreased significantly and full immunization coverage increased significantly over the last three decades. However, persistently high childhood malnutrition continues to undermine the human potential that is needed to achieve sustained and resilient growth.

The livelihoods of over three-quarters of Nepal's population are based on agriculture and forest resources. Over the past years, the number of people dependent on natural resources and ecosystem services from forests, grasslands and wetlands for their livelihoods and security has increased quite significantly. The recent fuel crisis and the 2015 earthquake has led to a skyrocketing need for fuel wood and timber for reconstruction of damaged housing and human settlements.

Nepal is also heavily vulnerable to the impacts of climate change and natural disasters. Recent records show increasing incidents of drought, flood, hailstorms, landslides and crop disease.

Climate change is expected to increase these incidents, with glacier outbursts, floods, droughts, and ecosystem degradation directly affecting the economy, especially the livelihoods of the poor. Nepal is located on the edge of a tectonic plate that gave rise to the Himalayas, and so it is also subject to high earthquake risks, particularly in the Kathmandu valley, which was once the bed of a glacial lake and hence, is prone to soil liquefaction.

The overall development goal of the Government of Nepal is to attain poverty reduction through sustainable, inclusive and equitable growth. The current Country Partnership Strategy CPS (2014-2018) is focusing on fostering sustained and inclusive growth, despite the continuing political transition.

Sectoral and Institutional Context

The modest economic growth achieved in recent decades has come at a high environmental cost. High population pressures have led to deforestation on steep mountain slopes, causing massive soil erosion and flooding on the plains. Forests and forest habitats are threatened by unsustainable harvesting and clearing for fuel wood collection and subsistence agriculture. Mountain biodiversity is suffering from forest degradation and deforestation, poor management of natural resources, and inappropriate farming practices. Encroachment into wetland habitats, unsustainable harvesting of wetland resources, industrial pollution, agricultural run-off, the introduction of exotic and invasive species into wetland ecosystems, and siltation have severely degraded the quality of the ecosystems and the services they provide.

Some protected areas face major threats from year round grazing, poaching, illegal timber harvesting and unsustainable tourism. Long term viability of major potential economic growth engines like ecotourism, hydropower generation, and agriculture all depend on the sustainable management of natural resources.

Nepal has the potential to deliver higher and more inclusive growth by sustainably managing its natural resource base. Planning and managing the country's vast water resources in a sustainable manner - including through investments to protect catchments - will support long-term growth, especially from irrigated agriculture and hydropower generation. Conservation and sustainable management of forests and biodiversity has the potential to underpin considerable growth in the tourism sector, especially nature-based tourism. Healthy forests also provide a stable subsistence base for the rural poor, curb soil erosion and enhance flood resilience, and provide a natural social safety net to external shocks such as earthquakes or political turmoil.

Forestry is an integral part of agriculture and rural livelihoods and fuel wood is the principal source of rural energy in Nepal. Non-wood forest products (NWFPs) have become a major source of income for the rural poor, medicine for primary health care and revenue for the government.

Nature-based tourism has been argued to be a means of achieving both conservation and sustainable development as it generates jobs for local communities. At present, the protected areas in Nepal include nine national parks, three wildlife reserves, one heritage reserve, three conservation areas, and 11 buffer zones covering a total area of 28,959.67 km². Altogether these areas constitute 19.67% of the country's land area. Out of the total tourists visiting Nepal about 45% visit protected areas. In 2015, the direct contribution of tourism and travel to Nepal's GDP grew by 5.4%. Tourism investments grew by 12% in 2015 compared to 2014 (WTTC, 2015).

Forests play an important role in Nepal's national economy. FAO (2009) has estimated that Nepal's forestry sector contributed 3.5% to the GDP of the country in 2000 and 4.4% for the period 1990 to 2000. But it is estimated that the forestry sector alone contributes 15% to the GDP of the country. The forest sector contributes 9.23% of total national employment. The majority of forest sector employment (91.30%) is in the informal sector with the formal sector contributing only 8.70%. The largest employment category is elementary unskilled forest workers accounting for 61.83% of total forest sector employment (ERI, 2011).

Estimates of foregone timber revenues are a partial indicator of the significance of the current shortfall in the performance of the forest sector. Using conservative figures for production and prices, Nepal's forestry sector could sustainably generate US\$180 million a year from timber harvests. In contrast, officially recorded forest revenue decreased from US\$9.5 million in 2004 to US\$4.18 million in 2006. This shortfall is characteristic across the other sources of value from forest resources. They are compounded, not compensated, by similar shortcomings in contributions to poverty reduction, biodiversity conservation, hydrology, and tourism. (PROFOR, 2013).

Several studies show that improved forest management can be a significant contributor to achieving poverty reduction in Nepal. Further, the MOSTEP's recent Rapid Environmental Assessment report following the 2015 earthquake reiterates the important role forests and biodiversity play in the economic development of the country as sources of food, medicines and other vital NTFPs; and critical ecosystem services in watershed and river catchment protection, soil protection, and land stability.

Nepal has successfully implemented the first grant allocated for the Reduction of Emissions from Deforestation and Forest Degradation, Sustainable Forest Management and Enhancement of Forest Carbon Stocks (REDD+). Activities under the original Readiness Preparation Grant were satisfactorily completed but the need for additional capacity development and the development of a grievance and redress mechanism was identified as important to sustain the results from the readiness activities. Therefore, the Government of Nepal qualified for additional funding to further improve its capacity to effectively participate in the REDD+ process; to carry out measurement, reporting and verification of carbon content in Nepal's forests and trees. The Forest Carbon Partnership Facility Participants Committee recognized Nepal's progress on REDD+ readiness, its strong ownership and commitment to REDD+, and the consultative multi-stakeholder processes supporting REDD+ activities. Within the Ministry of Forests and Soil Conservation, the Nepal REDD Cell, initially created to implement the first FCPF grant, has now officially been converted into a REDD Implementation Center, that will serve as focal point for both FCPF and FIP activities.

The Forest Investment Program (FIP) is one of the four targeted programs of the Climate Investment Funds (CIF). FIP grants and low-interest loans, channeled through partner multilateral development banks, empower countries to address the drivers of deforestation and forest degradation both inside and outside of the forest sector and enhance forest carbon stocks to achieve a triple win of poverty reduction, climate change mitigation, and resilience. Nepal was selected as a pilot country by the FIP Sub-Committee in May 2015. Nepal is expected to receive investment support of US\$24.1 million for the implementation of its Forest Investment Plan.

The purpose of the FIP is to support the efforts of the Government of Nepal to reduce emissions from deforestation and forest degradation and promote sustainable forest management leading to enhanced forest environmental services including carbon stocks, biodiversity conservation, water supply, protection of the rights of indigenous peoples and local communities, poverty reduction and rural livelihoods safety nets. To assist the Government of Nepal in developing its Forest Investment Plan and enhance the capacity for implementation, the governing body of the FIP approved a preparation grant of US\$ 250,000.

Relationship to CAS/CPS/CPF

The proposed activity is in line with Pillar 2 on Increasing Inclusive Growth and Opportunities for Shared Prosperity of the Country Partnership Strategy 2014-2018. This pillar is focusing on increasing inclusive growth and providing historically-disadvantaged Nepalis with opportunities to improve their resilience and increase their prosperity. The rural economy in general and agriculture in particular are prime targets for reducing poverty and sharing prosperity in Nepal as the livelihoods of over three-quarters of Nepal's population are based on agriculture and forest resources. Forestry is an integral part of agriculture and rural livelihoods and fuel wood is the principal source of rural energy in Nepal. Non-wood forest products (NWFPs) have become a major source of income for the rural poor, medicine for primary health care and revenue for the government.

The development and implementation of a Forest investment Plan for Nepal is also in line with the cross-cutting dimensions of the CPS as Climate change and risks from natural disaster will also continue to be addressed in a cross-cutting manner. The implementation of the FIP Investment Plan will contribute to achieving the CPS objectives of increasing inclusive growth and providing historically-disadvantaged Nepalis with opportunities to improve their resilience and increase their prosperity. This is in line with the World Bank's corporate goals of eliminating extreme poverty and boosting shared prosperity in a sustainable manner.

II. Project Development Objective(s)

Proposed Development Objective(s)

The objective of this project is to support the Government of Nepal with the preparation of Nepal's Forest Investment Plan and enhance its capacity for implementation.

Key Results

The key output of this project is a comprehensive Investment Plan that will provide a vision for Nepal's forest resources by incorporating forests and climate change considerations into Nepal's sustainable development agenda and identify priority areas of actions to sustainably manage forests and trees to improve the livelihoods of forest-dependent people and rural poor. The process of developing the Investment Plan will be participatory and include stakeholder groups such as government agencies, indigenous peoples groups; local community representatives, the private sector and other development partners. The planning process will also enhance the awareness and capacity of all stakeholders to recognize the importance of forests and trees for Nepal's socio-economic development and the need for a multi-sectoral, programmatic approach that will allow addressing the drivers of deforestation and forest degradation in a systematic manner. The Investment Plan will prioritize areas for technical assistance and investments that respond the drivers of deforestation and forest degradation and present the value added of the use of FIP resources and identify potential sources of co-finance.

The preparatory grant will also be used to undertake necessary studies and assessments to inform the investment plan; bring together other development partners which plan or implement forest-relevant activities and discuss potential support to the Investment Plan; and identify areas for

The plan will build on and foster synergies, collaboration and complementarities among the various ongoing and planned World Bank supported activities relevant to forests in Nepal, including the REDD+ readiness process, and the planned Emissions Reduction Program. The plan will also identify opportunities to engage with national and international partners with a view to support Nepal's forest agenda in a more strategic manner.

Success indicators:

- FIP Investment Plan for Nepal reflects the results from a participatory development process;
- A series of technical and social studies and assessment that have informed the Investment Plan;
- Increased political will to address Nepal's forest challenge (i.e. active inter-ministerial committee);
- Potential co-financing partners identified and donor coordination arrangements identified;
- Opportunities for cross-GP collaboration identified

III. Preliminary Description

Concept Description

In March 2015, the Government of Nepal submitted an Expression of Interest (EOI) to participate in the FIP to the FIP Sub-Committee. The EOI provided a description of the country and sector context, forest-related climate change mitigation potential, drivers of deforestation and potential investments needed to address those, as well as the potential to generate enhanced development co-benefits, as required by the FIP. The major barriers for reducing /avoiding deforestation and forest degradation as outlined in the EOI included:

- Lack of political will to take a transformational change in forest governance;
- Inadequate financial resources for intensive implementation of SFM;
- Lack of research needed for strong policy decisions;
- Weak governance (including institutional capacity, and law enforcement)
- Inadequate technical capacity among forest officials, user groups and local institutions;

The information provided in the EOI remains relevant and current. Hence the FIP resources will be used to address the challenges listed above. The main activities to accomplish the objective of this project will include:

- Review and analysis of national strategies and plans relevant for forests and climate change, including REDD+;
- Identification of the main areas of investment to be co-financed by the FIP;
- Hiring of consultants to prepare thematic studies which will inform the investment plan in accordance with FIP criteria;
- Stakeholder meetings and consultations to discuss the investment plan;
- Finalization of the investment plan and presentation to the FIP Sub-Committee for endorsement in May 2017.

The Government of Nepal is committed to address Nepal's forest challenge and is eager to expand the contribution of forests and trees to the national economy while improving forest governance and private sector engagement. During the preparation of the investment plan, priority areas of action to be co-financed by the FIP will be identified through a consultative process.

The FIP IP is envisaged to position the country to avail of available and potential new financing such as from the Green Climate Fund and other bilateral and multilateral financing sources.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10	x		
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	0.25	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Financing Gap			0.25

VI. Contact point

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