

**PROJECT INFORMATION DOCUMENT (PID)
(FCPF READINESS FUND)
CONCEPT STAGE**

Report No.:61684

Project Name	NEPAL REDD Readiness Preparation Program
Region	South Asia
Country	NEPAL
Sector	Agriculture Forestry 80% ; Agriculture General 20%
Lending Instrument	
Project ID	P116001
Borrower(s)	Government of Nepal
Implementing Agency	Ministry of Forestry and Soil Conservation
Environmental Screening Category	<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input checked="" type="checkbox"/> TBD (to be determined)
Date PID Prepared	10/21/2010
Estimated Date of Appraisal Completion	N/A
Estimated Date of Participants Committee Assessment of Readiness Package	December 2013
Concept Review Decision	Following the review of the concept, the decision was taken to proceed with the preparation of the operation.

I. Introduction and Context

1. Strategic Context

As Nepal emerges from a prolonged political crisis, the World Bank’s work in Nepal is guided by an Interim Strategy Note (Report No. 38119-NEP) that emphasizes protecting reforms, preparing a post-conflict economic program, carrying out a national visioning process, and lending support based on community-based approaches and an inclusion agenda. The Strategy takes note that serious governance, capacity and fiduciary risks will face implementation of development efforts in Nepal for the foreseeable future. Therefore, in the near term the Bank will focus on supporting community-led activities wherever they are successfully being implemented, while working with the reform forces to protect the gains and prepare for further reforms that should become possible when national attention is refocused on development. In addition, all Bank assistance—both financial and otherwise—will to the extent possible support the peace process to help ensure its success.

The Bank Strategy recognizes an “open moment” in Nepal where political turmoil may be creating space for leaders to carry reforms forward. The REDD+¹ Readiness Program could be a component of an expanded Bank engagement in Nepal on environmental and related livelihoods issues that could help innovators capitalize on the possibilities of the current period. In

¹ Reducing Emissions from Deforestation and forest Degradation in developing countries; encompasses conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.

particular, the REDD+ agenda aligns with ongoing work on the Pilot Programme for Climate Resilience (PPCR), the Poverty Alleviation Fund II (P105860), the proposed Strengthening Regional Cooperation on Wildlife Protection Project (P121210) and the ongoing PROFOR forestry sector ESW (P120509).

2. Main Deforestation and Forest Degradation Issues and Responses Identified in the R-PP.

Nepal, with an area of 147,180 km² encompasses a diverse landscape in the Hindu Kush Himalayas. The National Forest Inventory (NFI, 1999) showed that Nepal had a forest area of 5.8 million hectares (40% forest cover) that consisted of 4.2 million ha (29%) of forest and 1.6 million ha (10.6%) of shrubland. The middle mountains have about 48% of the forest area and the plains (*Terai*) have about 25%, with the remainder distributed in the high mountains of the Himalayas.

Studies show that Nepal's forest area decreased by 24% over 1979–1994, (an annual rate of 1.6%), while the area under shrubland increased by 126% during the same period (giving clear evidence of high rates of forest degradation). FAO's Global Forest Resource Assessment (2005) based on national data sources clearly shows the decreasing forest area in Nepal from 4.82 million ha (in 1990) to 3.64 million ha (in 2005)². In addition, 400,000 ha were estimated to have been lost through fires in 2000. This area does not include forest degradation caused by grazing and encroachment. The intensity of degradation is high in National forests compared to other forest management modes. Evidence strongly suggests that once the forest management regime is transferred to the local communities, the degradation and deforestation is substantially reduced in that forest. Analysis of deforestation and forest degradation shows that the pressure is highest in the *Terai* region. Currently, nearly 80,000 ha of forest in the *Terai* are encroached for agriculture and settlements.

The prominent causes of deforestation and degradation in the *Terai* and the high altitude forests are attributed to be the lack of clarity in the tenure system. The nationalization of private forest by the government (HMG, 1957) was one of the key factors that accelerated deforestation throughout Nepal. In the *Terai* and *Siwaliks*, deforestation is widespread due to government resettlement programme, unsettled settlements and illegal clearing of forest for agriculture and illicit felling of timber for smuggling across the border. Other causes of deforestation and degradation in the country are expansion of agricultural land for food production, extraction of firewood for cooking and domestic heating, forage gathering for livestock and forest grazing, inadequate management of public forests and restrictive forest management regulations. The current political instability and lack of land use plans has also exacerbated deforestation. Forest fire is another important factor. However, the rate of deforestation and degradation is lower in the Middle-hills where the community forestry programme has been more successful.

Nepal's vision for REDD is that by 2013 and beyond, greenhouse gas emissions resulting from deforestation and forest degradation will be significantly reduced by forest conservation and enhancement, by addressing the livelihoods concerns of poor and socially marginalized forest dependent people, and by establishing effective policy, regulatory and institutional structures for

² Values from different studies are not directly comparable because of differences in definitions and methodology.

sustainable development of Nepal's forests under the forthcoming new constitutional framework. To achieve this, the R-PP provides a roadmap for developing and implementation based on:

- (a) Aligning the National REDD Strategy with Nepal's overall development strategy, and with the new priorities being established by the upcoming Constitution;
- (b) Enhancing coordination between sectors and government agencies responsible to ensure sustainability and avoid conflicts between national and sectoral policies and programs;
- (c) Ensuring multi-stakeholder involvement that reflects the diversity of Nepal's forestry sector as well as stakeholders from agriculture, local development, energy and infrastructure;
- (d) Utilizing and building capacity at national, sub-national levels for designing and delivering the REDD strategy and for sharing benefits;
- (e) Linking Nepal's REDD Strategy with national priorities for addressing poverty and enhancing the livelihoods of forest dependent people;
- (f) Using the REDD Strategy to capture and fully value the wide range of forests ecosystem benefits as well as the value of timber and non-timber forest products.
- (g) Establishing a clear link between carbon ownership rights and land tenure and by clarifying issues of rights to forests as a priority during preparation;
- (h) Recognizing the importance of forests in adaptation to climate change as well as their role in mitigation through REDD;
- (i) Building and expanding on Nepal's internationally recognized successful experiences with reducing deforestation and forest degradation and forest conservation and enhancement through participatory approaches to forest management and benefit sharing and;
- (j) By encouraging further piloting and sharing during the REDD preparation phase;
- (k) Seeking and coordinating international funding support from Nepal's development partners to ensure consistency of approach and greater cost effectiveness of REDD.

3. Technical Assistance Provided by Bank Staff

The Bank provided general advice to the REDD Cell on administrative and fiduciary aspects. The Bank has provided comments and suggestions on procurement and financial management capacity strengthening needed within the forthcoming REDD Readiness work. It has also advised generally on future revisions to terms of reference and made recommendations on packaging of studies into a smaller number of contracts for ease of administration.

II. Proposed Development Objective

The objective of the Nepal Readiness Preparation Program is to prepare Nepal to engage in and benefit from the potentially emerging system of payment for environmental services of forests on the basis of environmentally and socially sound policies and programs to reduce deforestation and forest degradation, a credible and marketable counterfactual reference forest carbon emission "baseline" scenario, and technically robust systems of forest carbon measurement and reporting.

The Program will also develop forest policy and management systems, information and data, participatory methods and other human and institutional capacity of direct use in management and development of forests in Nepal for national poverty reduction, economic development and environmental purposes.

The Program will produce a set of studies providing policy and investment recommendations the key anticipated country needs for full and effective marketing of forest-based carbon dioxide emissions reductions including an accepted national REDD strategy and implementation system; a supportable reference emissions level projection (baseline) and a monitoring, reporting and verification system.

III. Preliminary Description

The Readiness Preparation Program is made up of four major components consisting of research studies, trials, feasibility and pre-feasibility studies, consultations and training. Total costs of the program are estimated at US\$7.5 million. The Readiness Preparation Program unites work being done by multiple agencies of government, non-governmental organizations and with support from various donors. These activities comprise a multi-stakeholder, participatory approach that includes analysis and development of forest and payment for environmental services policies and institutions, estimation of a reference scenario for forest-related carbon emissions, design and development of an emission monitoring, reporting and verifications system, and overall management and support of the national REDD readiness process.

Component 1. REDD Analysis and Policy Development (US\$3.1 million)

(a) Stakeholder Consultation and Participation (US\$2.4 million). The Consultation and Participation Plan is intended to promote meaningful participation of all stakeholders and interest groups in the REDD readiness activities to enhance the potential positive benefits and reduce the risks or adverse effects. Proposed activities for the Plan include: awareness and outreach, capacity development and consultation. The component would support radio and TV programs, newspaper articles, extension materials, journal and newspaper articles, awareness workshops, and website updates. Capacity development will include training for staff of implementing institutions formation of a team of master trainers/facilitators, training of trainers, district level training, workshops for journalists, support for forestry and other academic institutions, development of training curricula and manuals, consultation workshops, public hearings, Public notice and feedback collection, round-table meetings, consultations with experts, and reflection/validation workshops.

(b) Land Use and Forest Policy Analysis (US\$0.1 million). The following further in-depth studies will be conducted forest sector governance, law enforcement and policy implementation , a study on the drivers of deforestation and forest degradation in *Terai*, *Churia* and in the High Mountain physiographic regions, a study on the value-chain of forest products (timber and a few key non-timber forest products), a study on the existing and potential supply and demand situation for forest products in different regions, a study to develop coordination mechanisms amongst the Government Departments and between the government department and other stakeholders.

(c) Strategic Analysis (US\$0.2 million). The development of analytical studies will provide a scientific foundation for the National REDD Strategy. Studies will help fill the knowledge gaps about land use, the forestry sector, and the drivers of deforestation and forest degradation. Research will collect relevant information to facilitate the identification of the magnitude of the potential impacts of REDD in the country. These studies will be communicated to key stakeholders through a consultation process in the next stage of the REDD preparation process. Three broad analytical studies will be conducted assessing the value of the forest at the national level, evaluating the political economy of land use at the national level, assessing carbon emissions from drivers of deforestation and forest degradation. Consultation for strategic options prioritization including the participation of representatives from the private sector, non-governmental organizations, academia, government officials, indigenous peoples, local communities, women, dalits, political parties and civil society, outreach of policies and studies, strategic options assessment economic and financial assessments of selected strategic options, preparation and consolidation of the REDD Strategy document and endorsement and development of relevant plans.

(d) Implementation Framework Development (US\$0.3 million). Studies under this subcomponent will address (i) Forest Carbon Ownership and Land Tenure; (ii) REDD Implementation; (iii) Financing Mechanisms; (iv) Stakeholder Engagement and Governance; (v) Data Management, Monitoring, Reporting and Verification; (vi) Institutional and Governance Reform; and (vii) Work Plan and Budget. further studies/consultations including a study and consultation process for establishing forest carbon ownership in Nepal a study and detailed consultation on proposed ideas for REDD implementation mechanisms and the associated costs of the proposed institutional arrangements policies and programs for the implementation arrangements will be developed for approved by the government of Nepal.

(e) Social and Environmental Impact Assessment (US\$0.2 million). Studies leading to preparation of a social and environmental impacts of possible REDD arrangements and preparation of a Environmental and Social Management Framework.

Component 2. Reference Scenario Formulation (US\$ 1.4 million). This component will use existing and new data and modeling techniques to formulate a projection of “business-as-usual” emissions of carbon from forest-related sources in Nepal against which emission reductions and transaction can be conducted. It will include creation of a biomass surface from Land Resource Mapping Project (LRMP) data, creation of a comparable current biomass surface based on the planned FRA activities; development of a country wide economic model, and capacity building activities.

Component 3. Monitoring, Reporting and Verification Systems Development (US\$ 1.8 million). This component will develop information sources and systems capable of supporting future emissions reductions claims and transactions. It will extend current and planned systems of timber and non-timber forest products surveys, inventories and data management systems to include carbon accounts. This will involve field surveys, studies, modeling and systems design work and will include acquisition of satellite-based information and data from new forest mapping systems.

Component 4. Program M&E and National Readiness Management (US\$ 1.2 million). This component will support the national REDD institutions including the REDD Multi-sectoral, Multi-stakeholder Coordinating and Monitoring Committee as the apex body; the REDD Working Group (RWG) at the operational level; and the REDD-Forestry and Climate Change Cell as the coordinating entity. It will provide technical and administrative support to the REDD Cell, including support for financial management, procurement and consultant selection, contract management and overall management and consolidation of work under the program.

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	
Pest Management (OP 4.09)		X	
Physical Cultural Resources (OP/BP 4.11)		X	
Involuntary Resettlement (OP/BP 4.12)		X	
Indigenous Peoples (OP/BP 4.10)	X		
Forests (OP/BP 4.36)		X	
Safety of Dams (OP/BP 4.37)		X	
Projects in Disputed Areas (OP/BP 7.60)*		X	
Projects on International Waterways (OP/BP 7.50)		X	

V. Tentative Financing

Source:	(\$m.)
Borrower/Recipient	0.4
IBRD	0
IDA	0
FCPF	3.4
UK DFID/Switzerland	1.5
Finland	0.8
Jica	0.4
USAID	1.1
Total	7.5

VI. Contact Point

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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

Borrower

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