Appraisal Environmental and Social Review Summary

Appraisal Stage

(ESRS Appraisal Stage)

Date Prepared/Updated: 03/10/2020 | Report No: ESRSA00501
BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Region</th>
<th>Project ID</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nepal</td>
<td>SOUTH ASIA</td>
<td>P170798</td>
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</tbody>
</table>

Project Name: Investing in Forests for Prosperity at a Time of Transformation

Practice Area (Lead): Environment, Natural Resources & the Blue Economy

Financing Instrument: Investment Project Financing

Estimated Appraisal Date: 3/9/2020

Estimated Board Date: 5/13/2020

Borrower(s): Nepal

Implementing Agency(ies): Ministry of Forests and Environment

Proposed Development Objective(s)

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

<table>
<thead>
<tr>
<th>Financing (in USD Million)</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Total Project Cost</td>
<td>24.00</td>
</tr>
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</table>

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

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

The proposed project will have 4 components. The value of FIP financing against each component is indicative and subject to change during preparation as more information becomes available. During project preparation, other development partners will be engaged to seek opportunities for co-financing the project. The four components are:

1) Strengthening the enabling environment at all levels of government and processes in the forestry sector
2) Community-based sustainable forest management and forest plantations
3) Forest enterprise improvement and development
4) Project management, monitoring and learning

D. Environmental and Social Overview

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]

The project will be implemented in Provinces 2 and 5 and within these in 50 selected municipalities (25 in each participating province) by Local Governments. The Forests for Prosperity Project (FFPP) will be implemented in 9 of the 13 districts included in Nepal’s Emission Reductions Program in the Terai Arc Landscape (ERP-TAL) and will therefore contribute towards Nepal’s emission reductions commitments for which payments will be received.

The investment components of the project, i.e. Components 2 and 3, will be located in the Terai, Chure and Mid-Hills Regions. Component 2 supports sustainable and more productive forest management by community-based forest management (CBFM) groups to improve forest conditions and delivery of forest products that can be used by small and medium forest-based enterprises to generate rural jobs and incomes as well as meet local subsistence product needs. The pilot areas for supporting development of forest-based SMEs will be located in selected parts of Provinces 2 and 5 with extensive mature plantations or with productive, mature natural forests. Terai forests are highly disturbed by livestock grazing, tree cutting, sapling and pole cutting and forest fires, while forests in the Churia Hills seem less affected. The Terai and Chure Regions, in particular, are known to be the ancestral home of both indigenous peoples (such as the Tharu and Magar) and other vulnerable groups, e.g. Dalits, Madhesis, women and other forest-dependent poor, many of whom will be among the project's beneficiaries.

Component 3 on Forest Enterprise Improvement and Development will support the establishment, development, operation and (in certain cases) improvement of forest-based SMEs. CBFM groups and farmers will be supported to harvest timber and other non-timber forest products (NTFPs) from sustainably managed forests and plantations and to identify markets for resulting products. The sub-component will provide support for landscape-level harvesting planning and capacity development; support for forest-based SMEs establishment and improvement; and technical support and awareness-raising for forest-based enterprises. It will also support the design and piloting of a credit line for forest-related investments in the two provinces through the use of FIs.

D. 2. Borrower’s Institutional Capacity

At the central/federal level, a Project Management Unit (PMU) will be set up for the project directly under the Joint Secretary and the Chief of the Planning, Monitoring and Coordination Division in the Ministry of Forests and
Environment (MoFE). However, in support of the decentralization process currently taking place in Nepal, the sub-national level of government, i.e. provincial and municipal/local, will also play an active role in project implementation and the project’s success is contingent on how well the decentralized system is supported and operationalized on the ground. To date, the environmental and social capacity of MoFE is weak and so is the capacity of the sub-national government units charged with environmental and social issues management. The Environment Sector Diagnostic for Nepal that was recently launched by the World Bank pointed to the critical need for capacity strengthening in the area of environmental management, especially in the context of devolution of powers introduced through the 2015 Constitution. An assessment of the implementing agencies' capacity for E&S issues management has been undertaken during preparation and a capacity building program aimed at supporting building capacity at the federal and sub-national levels has been incorporated into the ESMF and SEP for the project.

A "functional review" whose aim, among other things, is to systematically diagnose the Borrower's capacity and track record in terms of managing environment, social and health risks and impacts in view of the ongoing decentralization of power in forest governance has already been initiated, and is expected to be completed by the end of 2020. This review will also determine the type of capacity building interventions to be required. In addition, Component 1 of the project focuses on building capacity at the three tiers of government and will constitute activities like reviewing and developing processes for federal and provincial forest policy, strategy and regulations in the context of the new constitution; supporting MoFE in establishing a national third-party certification process for SFM against agreed national forest sector standards; and training of staff of Provincial Forest Directorates, Division Forest Offices and Sub-division Forest Offices in technical aspects of sustainable forest management, including E&S risks. At the Local Government level capacity building activities will focus on training for elected representatives and sectoral and administrative staff, covering participatory, forest sector planning, land-use planning, financial management and safeguards application.

II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC) 

Environmental Risk Rating Substantial

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

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

Social Risk Rating

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

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment
ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

The environment and social risk ratings are “Substantial” as the project supports sustainable CBFM, enterprise development for forest-based SMEs and implementation of new governance arrangements in the forest sector to support the shift to a federal system against a backdrop of weak capacity of the local government to manage natural resources and substantial E&S risks. The key environmental risks come in relation to unsustainable practices and activities such as over-harvesting of trees and setting too-high harvesting quotas for timber and non-timber forest products. Also, the implementation of activities with adverse E&S impacts such as those located in biodiversity hotspot areas and critical habitats could occur, even though the project will not support any activities that take place in legally designated parks or protected areas. Other impacts on the biodiversity would be from selective felling which may reduce the overall resilience of the forests to pests and pathogens, genetic erosion, loss of biodiversity, loss in natural regeneration of Sal and other major species, over harvesting destroying key habitats such as nesting sites for birds and other small animals. Increased access to forests may also lead to spread of unplanned settlements thereby expanding deforestation and preference of result in monoculture plantations. Other environmental risks stem from the significant use of chemical pesticides and production of waste materials associated with forest-based enterprises. All of these risks are ultimately considered possible but not likely, as there are a number of mitigating factors included in the project design itself, the planned capacity building actions and through the proper application of the safeguard instruments.

The most prominent social risks relate to the possible exclusion of disadvantaged or otherwise vulnerable groups, such as IPs, Dalits or female-headed households, from receiving benefits from the project, although CBFM groups have an overall good track record of embracing pro-poor governance and benefit sharing.

Project activities, while largely consisting of community-based sustainable forest management (SFM), Forest enterprise improvement and development, capacity building and technical assistance, have the potential to cause environmental and social risks and impacts depending on how quickly or slowly the decentralization process unfolds, how successfully the process is operationalized and how effectively the capacity of sub-national entities is built. During project preparation, a thorough assessment of the E&S risks was undertaken. As the locations of specific interventions have not been determined and their site-specific impacts cannot be known during project design and preparation, a frameworks approach has been adopted which provides rules and procedures for the proposed activities. The following instruments have been prepared to address the associated risks: i) an Environmental and Social Management Framework (ESMF) incorporating the results of Environmental and Social Assessment (ESA) for the project, a Resettlement Policy Framework and an Indigenous Peoples Planning Framework (IPPF); and ii) a Stakeholder Engagement Plan (SEP). The ESMF includes sample checklists for screening and for determining the types of instruments--such as Environmental and Social Management Plans (ESMPs)--that will need to be prepared to mitigate any residual risks in project activities.

Under Component 3, the project will support forest-based enterprises through Financial Intermediaries (FI). The project will assess the capacity of an Apex Body acting as a “wholesaler” and private and public banks/financial institutions acting as "retailers" to pilot a line of credit for FBEs, and Environmental and Social Management Systems (ESMSs) satisfactory to the Bank will be developed and established in all of the FIs before they can receive funds under the Project. This assessment will be carried out after project effectiveness and and has been included as an agreed action in the Environmental and Social Commitment Plan (ESCP).
For Component 3 activities, particularly Occupational Health and Safety (OHS)-related risks are envisaged. The benefiting forest enterprises will adhere to the ESMSs of the selected FIs and operate in a manner consistent with the applicable ESSs. This will also include the WBG Environmental, Health, and Safety (EHS) Guidelines.

Generic Labor Management Procedures (LMPs) that are consistent with national legislation and ESS2 will be developed as outlined in the ESMF within two months of signing of the project agreement. These will be customized as needed for the various activities before their implementation.

**ESS10 Stakeholder Engagement and Information Disclosure**

Nepal has a long history of engaging forest-dependent people through the promotion of community-based forest management (CBFM), both to achieve conservation outcomes and meet household subsistence requirements. As part of project preparation, the prospective PMU has mapped the key stakeholders and solicited inputs from them on project design. The individuals, groups and institutions most likely to be affected or otherwise involved (as direct beneficiaries) have been identified as follows:

i) Regulatory Bodies: Municipalities; Small and Cottage Industry Offices; Sub-/Division Forest Offices; Watershed Management Offices; Province Forest Directorates; Province Ministry of Industry, Tourism, Forests and Environment; Province Ministry of Agriculture and Land Management; Province Ministry of Social Development; Department of Forest and Soil Conservation; Department of Plant Resources; Department of Industry, Trade and Export Promotion Center; Nepal Rastra Bank; Ministry of Agriculture and Livestock Development; Ministry of Forests and Environment; Ministry of Industry, Commerce and Supplies; Ministry of Finance; Ministry of Women, Children and Senior Citizens.

ii) Forest Product Producers: Community Forest User Groups; Leasehold Forest User Groups; Collaborative Forest User Groups; Private Forest/Nursery Owners; Public Land Management Groups; Farmers; Sagarnath Forestry Development Project.

iii) Stakeholder Networks: Nepal Foresters’ Association (NFA); FECOFUN; ACOFUN; HIMAWANTI Nepal; NEFIN; FNCCI; DANAR Nepal; FWEAN; Cooperative Associations.

iv) Forest Product Traders: Local to national/international timber and NTFP (essential oils, herbal medicines, cosmetics) traders, i.e. Jadibuti Association of Nepal (JAWAN); Nepal Herbs and Herbal Products Association; FenFIT; HPPCL; Nepal Forests Corporation (previously the Timber Corporation of Nepal and the Forest Products Development Board merged).

v) Forest Product Pre-/Processing/End Product Production Industries: Forest-based industries (Alloo, Resin, Veneer, plywood, handmade paper, furniture, saw mill, treatment plant, seasoning plant) including herbal medicine company; HPPCL; Nepal Forests Corporation.

vi) Academic/Training Institutions: CTEVT; IOF; KaFCol; forestry research and training centers; Agro-Forestry University.

vii) Others: Forestry projects/programs; I/NGOs working in the project area; commercial banks; finance companies (central and regional); media.

A Stakeholder Engagement Plan (SEP) has been prepared after extensive stakeholder consultations that have consisted of 36 focus group discussions, 35 key informant interviews, 28 one-to-one interviews, 2 interaction
meetings, 3 validation workshops (2 at the provincial level and 1 at the federal level) and 19 general meetings held at the community, municipal, provincial and federal levels in 93 different locations. The federal- or national-level validation workshop was organized after compiling issues, gaps, and opportunities and identifying potential project activities from the provincial validation workshops. The final outcomes of the stakeholder consultations have been incorporated into the Project Appraisal Document (PAD) and are reflected in the ESF frameworks for the project. These outcomes have pinpointed a number of areas where the PMU, PPMUs, and other implementing entities and partners, including communities, will have to take particular care to ensure that the benefits of the FFPP are widely shared, especially when it comes to traditionally vulnerable and excluded groups such as women, indigenous peoples, and lower-caste people. Discussions included the need for a more consultative process for policy making, inclusive SFM guidelines, improvements to the registration process for forest-based enterprises and need for capacity development.

The SEP includes a full description of the Grievance Redress Mechanism (GRM) for the project.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

The project is likely to employ different types of workers, including direct workers, contracted workers, community workers and primary supply workers (e.g. involved in harvesting and value addition). However, given the nature of the project, the majority of workers are likely to be community workers involved in Component 2. It is also likely that some skilled labors will be contracted by the forest-based enterprises.

Generic Labor Management Procedures (LMPs) will be developed as outlined in the ESMF within two months of signing of the project agreement consistent with national legislation and ESS2 in order to address all pertinent issues, including the applicable requirements regarding non-discrimination and equal opportunities. Agreement for developing generic LMPs has been included in the ESCP as a step to be taken after project negotiations. This generic LMPs will be customized and updated as per specific activities and implemented throughout the project period. They will be available to project workers and all sub-contractors engaged.

Activities that involve significant risks or impacts on labor and working conditions, including harvesting operations carried out by CBFM groups, will develop LMPs consistent with the ESMF and the generic LMPs. Any Forest-Based Enterprises and SFM enterprises will have to follow similar LMPs consistent with the ESMs of the supporting FIs. The activity-specific LMPs will be in place before the approval of the activities and maintained throughout the time of their operation. The project will ensure that the fair treatment of workers is promoted, and there will be measures to prevent and address worker harassment, intimidation and/or exploitation.

The Project will also prepare, adopt, and implement appropriate occupational, health and safety (OHS) measures, as described in the ESMF and consistent with ESS2, WB’s EHS guidelines and national regulatory requirements. The OHS will include measures for addressing hazards in the workplace, protective measures for hazardous conditions or
substances, accident and incident reporting procedures, emergency response procedures and remedies for adverse E&S impacts. OHS requirements will be incorporated into the relevant contract documents.

**ESS3 Resource Efficiency and Pollution Prevention and Management**

The project will help improve the management, productivity and harvesting of forests in Terai and Chure Regions, in accordance with the SFMPs developed by the communities. It is envisaged that the improved forest productivity and management will result in a net gain in carbon sequestration and less GHG emissions. The project might involve use of chemical pesticides for producing and raising saplings and seedlings in nurseries as well as in plantations and in forest enterprises. Stand-alone PMPs will be prepared in all cases of significant direct purchasing and usage of pesticides or if significant pest management issues are anticipated; otherwise, they will be included as part of the ESMPs that are prepared. The screening of activities will determine if a pest management plan will be required.

Fodder management and NTFPs and livestock support inside CBFM areas including SFM demonstrations under Component 2 will require tree clearance activities with a potential of waste production. Simplification of forest through selective felling may reduce the overall resilience of the forest to pests and pathogens. In addition, operation of forest products and timber based SMEs (mills, Kattha and Cutch, Resin, etc.) will also produce waste under Component 3.

The FFP Project will ensure incorporation of pollution control compliance requirements in investment agreements for different activities and will develop and implement waste management plans to deal with harmful and toxic wastes from the production process. The ESMF includes sections on Pollution Prevention and Management with a focus on those issues which might arise while supporting mainly the enterprises. Considering that the use of chemical pesticides will be limited, the developed specific ESMPs will include appropriate risk mitigation measures as per the ESS1.

**ESS4 Community Health and Safety**

Given the nature of the project, construction-related community health and safety issues will not be an issue. The project design and developed safeguard instruments will ensure improved ecosystem services that would have beneficial impacts on the livelihoods of communities within a decentralized structure that is successfully supported and implemented.

However, the FFP Project will ensure its activities meet any applicable health and safety assessment requirements in compliance with national laws/regulations as well as with World Bank Group Environmental, Health and Safety (EHS) requirements at investment approval stage. To address environmental risks and impacts that might affect community health and safety, the ESMF includes assessment of work-related health risks; works and road safety; excessive noise and dust levels; and site safety awareness and access restrictions. Similarly, traffic and road safety risks with regard to transport of timber, fuel wood and other forest products will be assessed. All these issues will be included in the site-specific ESMPs to be prepared once the locations of specific activities are identified.
ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

The project is not expected to involve any involuntary land acquisition leading to physical and/or economic displacement. A Resettlement Policy Framework (RPF) has been developed as a precautionary measure, and annexed to the ESMF prepared for the project. The RPF provides for the preparation, implementation and monitoring of any Resettlement Plans that may be necessary. Otherwise, during project preparation it was determined that will not be any economic displacement as a result of restrictions of access by local communities to natural resources in legally designated national parks or protected areas, because the Project is not supporting any activities in such areas, or in their buffer zones. Any such displacement that results from resource use restrictions in other areas (such as community-managed forestlands) is expected to be small in scale and relatively easy to manage; the potential impacts involved and their corresponding mitigation measures are outlined in the ESMF.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

The project is proposed to be located in Terai and Chure Regions but will avoid supporting any activities in the Regions' protected areas and national parks, together with their buffer zones. The activities of the Project will be carried out in the forest ecosystems of Provinces 2 and 5. The project supports activities like SFM through CBFM, plantation in private and public lands and watershed management, all of which come with potential threats to biodiversity.

Simplification of forests in the project area through selective felling may reduce the overall resilience of the forests to pests and pathogens; selective logging may cause genetic erosion. It may also damage the residual trees and vegetation and the seed trees may not survive the “isolation shock” or mechanical damage. Some forest may not regenerate naturally after felling, resulting in loss of biodiversity; mixed Sal forests may become converted to almost pure Sal forests with loss of biodiversity; natural regeneration of Sal and other major species may be jeopardized because of many undesired and invasive species like Lantana and Eupatorium that may potentially occupy the felled areas; harvesting may damage or destroy key habitats such as nesting sites, including old hollow trees, that serve as feeding and breeding grounds for birds and other small animals; the impacts on some herbivorous birds or insects through logging can interfere with the regeneration of tree and other plant species that depend on these animals for pollination or seed dispersal; increased access to forests may also lead to spread of unplanned settlements thereby expanding deforestation; preference of private forest owners to fast growing single species may result in monoculture plantations, etc.

The project has proposed mitigation measures in the ESMF such as maintaining other tree species (except Sal) to the extent possible while implementing harvesting operations following principles of SFM; avoiding biodiversity-rich and wildlife hotspot areas as harvesting sites; cleaning and weeding operations to avoid invasion of unintended species; application of selection and shelter-wood system for harvesting taking into account species isolation and genetic erosion; retaining Seed Trees following silvicultural principles for SFM; strict law enforcement to protect the SFM sites; encouraging private forest owners to grow mixed forests with native species as far as possible, etc.

The ESMF provides guidance for mitigating the impacts on biodiversity. In response to the potential risks and impacts on biodiversity or natural habitats, the project will mitigate those risk by including the mitigation hierarchy and good practices in site-specific ESMPs.
If any activity would bring significant impacts on natural habitats as defined by ESS6, then the Project would apply the requirements of ESS6. Financing of such activities will be ruled out if identified with direct or indirect (e.g. through supply chains) adverse impacts on critical natural habitats. If needed, as specified in ESMF, the project will prepare, adopt, and implement a stand-alone Biodiversity Management Plan, in accordance with the guidelines of the ESA prepared for the project, and in a manner acceptable to the Bank. For issues with involvement of harvesting of natural resources the Project will ensure that forest certification system, time-bound phased action plan acceptable to the bank are adopted.

**ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities**

The overall project area is the ancestral home to indigenous peoples (known as "Adivasi/Janajati") that have been living there for generations, as well as to numerous IP groups that have in-migrated from the Hills or Mountains. The area is also home to an array of ethnic and religious minority groups that, due to their vulnerability, will be treated essentially the same as the IPs by project authorities when it comes to the assessment of risk and the provision of benefits. In Provinces 2 and 5 combined, indigenous peoples comprise 23 percent of the population. Janajati includes Tharu, Magar, Jhangad and Tamang plus other communities and comprises a higher proportion in Province 5 (34 percent) compared with Province 2 (14 percent). Consultations were held with these groups on issues such as benefits sharing and linking forest management with the traditional knowledge and skills of indigenous peoples.

As the specific siting of project activities under Components 2 and 3 is yet to happen, it is not yet certain whether the proposed project will have adverse impacts on land and natural resources subject to traditional ownership or under customary use or occupation by IPs (although this seems unlikely), or that the project will have significant impacts on the IPs’ cultural heritage. During preparation MoFE authorities consulted on the project with indigenous peoples’ representative institutions at multiple levels, and confirmed that the proposed project activities enjoy their broad support. As part of this process, an Indigenous Peoples Planning Framework (IPPF) has been prepared and integrated into the ESMF. This Framework includes the specification that a process of free, prior and informed consent (FPIC) shall be followed during project implementation for any activity involving the adverse or significant impacts mentioned above.

**ESS8 Cultural Heritage**

Some forested areas within the overall project area may be considered sacred by participating local communities, while others may have presence of tangible and intangible cultural heritage. For example, there are some cultural heritage sites in the project area such as Lumbini in Rupandehi and Tilaurakot in Kapilbastu, although the project is not expected to have any direct impacts on these sites. Also, the project will not work in designated Religious Forests as categorized under the Forest Act (2019).

A chance finds procedure for cultural heritage, consistent with the relevant national legislation and ESS8, will be part of all contracts or activities involving any excavation, movement of earth or related changes in the physical environment under the project. For any activity screened for substantial risks to or impacts on cultural heritage, the
requirements of ESS8 of the ESF will be applied and a Cultural Heritage Management Plan that stipulates the relevant mitigation measures will be developed.

ESS9 Financial Intermediaries

Component 3 will finance forest-based enterprises (FBEs) by working through an Apex Body and select commercial banks for on-lending purposes, which means that ESS9 is relevant for the FFP Project. MoFE at the federal level will establish the proper institutional arrangements for implementation of environmental and social requirements of Financial Intermediaries. The position will be filled once the project starts implementation.

The project will assess the capacity of the FIs to serve in this role and Environmental and Social Management Systems (ESMSs) satisfactory to the Bank will be developed and established in the selected FIs before they can receive funds under the Project. Clearly defined procedures for the identification, assessment, management, and monitoring of the environmental and social risks and impacts involved with providing support to SMEs/FBEs in this manner will be developed and implemented, via the ESMSs. The assessment of the Apex Body will be done after project effectiveness as agreed with MoFE and specified in the ESCP.

C. Legal Operational Policies that Apply

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

III. BORROWER’S ENVIRONMENTAL AND SOCIAL COMMITMENT PLAN (ESCP)

<table>
<thead>
<tr>
<th>DELIVERABLES against MEASURES AND ACTIONS IDENTIFIED</th>
<th>TIMELINE</th>
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<tbody>
<tr>
<td>ESS 1 Assessment and Management of Environmental and Social Risks and Impacts</td>
<td>06/2020</td>
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<tr>
<td>An organizational structure with qualified staff and resources to support the management of environmental and social risks of the Project will be established and maintained at the federal level (in the PMU) and at the Provincial Level (in the two PPMUs) to ensure full compliance with the ESMF and relevant instruments.</td>
<td>06/2020</td>
</tr>
<tr>
<td>Technical specialists in the PMU and PPMUs will have knowledge and experience covering all aspects of the ESSs and will have specific responsibility for ensuring that these Standards are met.</td>
<td>06/2020</td>
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<tr>
<td>ENVIRONMENTAL AND SOCIAL ASSESSMENT: Regular updates as required for the adoption and implementation of the ESMF of the Project,</td>
<td>11/2020</td>
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including Environmental and Social Assessment of Project activities and other instruments developed such as SEP and ESMPs will be ensured.

**MANAGEMENT TOOLS AND INSTRUMENTS:**
ESMF and SEP for the Project have already been developed.
Environmental and Social Screening of proposed activities in accordance with the ESMF prepared for the Project, and, thereafter, preparation, adoption, and implementation of site-specific Environmental and Social Management Plans (ESMPs) as required, will be implemented.

**MANAGEMENT OF CONTRACTORS:**
All the relevant aspects of the ESCP and ESMF prepared for the Project, including the Labor Management Procedures, will be incorporated into the environmental, social, health and safety specifications of the procurement documents with contractors and service providers.

Environmental and social obligations will be included in all bidding documents including the contractual agreements. It will be ensured that the contractors comply with the environmental, social, health and safety specifications of their respective contracts.

**ESS 10 Stakeholder Engagement and Information Disclosure**

**STAKEHOLDER ENGAGEMENT PLAN:**
A draft Stakeholder Engagement Plan (SEP) has already been prepared for the Project. It will be updated, adopted and implemented consistent with the ESS 10.

**PROJECT GRIEVANCE REDRESS MECHANISM:**
A Grievance Redress Mechanism (GRM) for the Project has been prepared as part of the SEP. This will be improved as required, adopted, and maintained as described in the SEP.

**ESS 2 Labor and Working Conditions**

**LABOR MANAGEMENT PROCEDURES:**
Labor Management Procedures (LMP) will be developed as outlined in the ESMF and consistent with national legislation and ESS 2 addressing all issues including the applicable requirements.

**GRIEVANCE MECHANISM FOR PROJECT WORKERS:**
An effective and functional grievance redress mechanism (GRM) will be established and maintained as outlined in the SEP and LMPs developed for the Project and consistent with ESS 2 and the relevant labor laws.

**OCCUPATIONAL HEALTH AND SAFETY MEASURES:**
Preparation, adoption and effective implementation of OHS measures including emergency preparedness and response measures, Project workers’ training to enhance awareness of possible risks or injuries.

**ESS 3 Resource Efficiency and Pollution Prevention and Management**
Resource efficiency and pollution prevention and management measures including recycling and re-use options, water/energy efficiency features for the Project will be incorporated, wherever applicable, into the design of each activity.

<table>
<thead>
<tr>
<th>ESS 4 Community Health and Safety</th>
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</thead>
<tbody>
<tr>
<td>TRAFFIC AND ROAD SAFETY:</td>
</tr>
<tr>
<td>As required, measures and actions to assess and manage traffic and road safety risks during timber, fuelwood and other forest products transportation within the Project or its activities will be developed and implemented.</td>
</tr>
<tr>
<td></td>
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<tr>
<td>Measures and actions to assess and manage specific risks and impacts to the community arising from Project activities will be ensured by including the measures and actions specified in the site-specific ESMPs that will be developed.</td>
</tr>
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<tr>
<td>GENDER BASED VIOLENCE AND SEXUAL EXPLOITATION AND ABUSE:</td>
</tr>
<tr>
<td>GBV risks of Project activities will be assessed during the screening of the activities and, if needed, a stand-alone GBV Action Plan will be prepared, adopted and implemented.</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>ESS 5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement</th>
</tr>
</thead>
<tbody>
<tr>
<td>RESETTLEMENT PLANS:</td>
</tr>
<tr>
<td>In the unlikely event they are required, Resettlement Action Plans (RAPs) will be prepared, adopted and implemented consistent with the requirements of the Resettlement Policy Framework (RPF) for the Project.</td>
</tr>
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<thead>
<tr>
<th>ESS 6 Biodiversity Conservation and Sustainable Management of Living Natural Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIODIVERSITY RISKS AND IMPACTS:</td>
</tr>
<tr>
<td>As per ESMF requirements, following screening of each activity biodiversity-related risks and impacts will be identified and, if needed, Biodiversity Action Plans will be prepared, adopted and implemented.</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>ESS 7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDIGENOUS PEOPLES PLANS:</td>
</tr>
<tr>
<td>If required, Indigenous Peoples Plans (IPPs) will be prepared, adopted and implemented consistent with the requirements of the Indigenous Peoples Planning Framework (IPPF) for the Project.</td>
</tr>
</tbody>
</table>

| FPIC:                                                                                           |
| Under particular circumstances, IPs affected by Project activities will have the opportunity to provide their free, prior and informed consent (FPIC) to the design, implementation arrangements, and/or expected outcomes of said activities. |

<table>
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<tr>
<th>ESS 8 Cultural Heritage</th>
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</table>

CHANCE FINDS:
A chance finds procedure for cultural heritage will be part of all contracts involving any works under the Project. 07/2020

CULTURAL HERITAGE MANAGEMENT PLANS:
If required, Cultural Heritage Management Plans will be prepared, adopted and implemented consistent with the requirements of ESS 8. 11/2020

ESS 9 Financial Intermediaries

ENVIRONMENT AND SOCIAL MANAGEMENT SYSTEM:
It will be ensured that any FI that will be involved in channelling financing to SMEs/FBEs has an effective ESMS in place and the FI has established and sufficient organizational capacity to implement it. 11/2020

SENIOR MANAGEMENT REPRESENTATIVE:
Senior management representatives from the FIs that will on-lend to SMEs/FBEs will have overall accountability for the environmental and social performance of the forest enterprise activities being supported. 11/2020

B.3. Reliance on Borrower’s policy, legal and institutional framework, relevant to the Project risks and impacts

Is this project being prepared for use of Borrower Framework? No

Areas where “Use of Borrower Framework” is being considered:
The use of the Borrower Framework will not be considered for this project. The FFP Project will meet both the applicable requirements of the GoN and the relevant World Bank ESSs.

IV. CONTACT POINTS

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Borrower/Client/Recipient
Borrower: Nepal
Implementing Agency: Ministry of Forests and Environment

V. FOR MORE INFORMATION CONTACT
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VI. APPROVAL
Task Team Leader(s): Andrew Michael Mitchell, Andrea Kutter
Practice Manager (ENR/Social) David Seth Warren Cleared on 09-Mar-2020 at 21:57:50 EDT