



Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 17-Jan-2020 | Report No: PIDC198730



BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P171720		Moderate	Dedicated Grant Mechanism for Indigenous Peoples and Local Communities in Nepal
Region	Country	Date PID Prepared	Estimated Date of Approval
SOUTH ASIA	Nepal	17-Jan-2020	
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	National Executing Agency	National Executing Agency	

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PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	4.50
Total Financing	4.50
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	4.50
Strategic Climate Fund Grant	4.50

B. Introduction and Context

Country Context

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



provinces and 753 local governments for which new legislation, institutions and administrative procedures are being formalized as constitutionally prescribed. Meanwhile, the central level authority is being streamlined with a focus on national policies and oversight. This profound level of state restructuring is expected to result in improved outreach and service delivery in the medium term but is likely to take time before becoming fully operational.

The Government of Nepal (GON) supports sustainable forest management and an enhanced contribution of the forest sector to Nepal's economy and job creation. Nepal's Forest Sector Strategy (2016) further details the policy and targets the economic contributions of forests to be at least 7.5 percent of GDP by 2025, a highly ambitious target. It also proposes generating at least six times more jobs, reducing annual timber imports by 50 percent, and increasing by six-fold the yearly commercial timber supply to the domestic market by 2025. In its Nationally Determined Contribution (2016) to mitigate climate change, the Government of Nepal has committed to reduce greenhouse gas emissions from deforestation and forest degradation.

Nepal's economy and job market heavily depend on the use of natural resources but does not generate benefits to its full potential. The agriculture sector employs about 76% of the workforce. Subsistence farming is still practiced over much of the country which depends on the close integration of agriculture with the management of forests for energy (fuel), building materials, 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 3.5%; however, considering the indirect benefits derived by agriculture and tourism, the real figure is estimated to be closer to 10.5%. Nepal's forest rent (% of GDP) was 1.3% in 2016. Full-time equivalent jobs in Nepal associated with the forest sector have been estimated at 9.23% of the economically active population.

Nepal is a socio-culturally diverse country. There are 125 caste and ethnic groups in the country of which 59 are ethnic groups categorized as (37%) Indigenous Peoples and there are 26 castes (about 13%) which are classed as *Dalit*. 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 marginalized 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.

Recognizing this, the FIP supports a special grant, the Dedicated Grant Mechanism (DGM). The DGM is separate from the FIP investment project and 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 FIP *Forests for Prosperity* project *Forests for Prosperity (FFPP)*. The FFPP and DGM are mutually supportive of each other and complementary in outcomes



Sectoral and Institutional Context

Nepal's total forest area is 6.4 million ha representing a forest cover across all regions of 44.7% (including shrubland)[1] (see annex 1). The growing stock of Nepal's forests is estimated to be 982.3 million m³, an average stock of 165 m³/ha (High Mountains 225 m³/ha, Mid-hills 124 m³/ha, and Terai and Chure 162 m³/ha). The mean carbon stock of Nepal's forests (including above and below ground biomass and soil carbon) is 176.9 t/ha with 62% of this in the tree component and 38% in forest soils[2]. Of Nepal's forests, the majority is state-owned, while private forests occupy less than one percent, although they are increasing. State-owned forests are further divided into protected areas and national forests, with the latter comprising government-managed forests, forests under community-based and collaborative management, protected forests, and religious forests.

While Nepal's forest cover has been stable over the past 10 years, deforestation and forest degradation rates significantly differ across Nepal's physiographic regions. The annual deforestation rate is 0.44 percent (1,648 ha/yr.) in the Terai and 0.18 percent (2,537 ha/yr.) in the Siwaliks. Terai forests are degraded by livestock grazing, tree cutting, sapling and pole cutting, and forest fires, while forests in Churia are less affected[3]. Nepal's REDD+ Strategy identifies nine drivers of deforestation and forest degradation: (1) unsustainable and illegal harvesting, (2) forest fires, (3) infrastructure development, (4) overgrazing/uncontrolled grazing, (5) weak forest management practices, (6) urbanization and resettlement, (7) encroachment, (8) mining and excavation, and (9) invasive species. The factors underlying these dynamics include a lack of clarity over land and resource tenure, poor forest governance and cross-sectoral collaboration, demographic and cultural complexity, limited access to markets; lack of alternative livelihood opportunities, and high opportunity costs for agricultural land use of forest areas.

Conservation-oriented forest management involving communities has been widely credited as a key factor reversing the deforestation and forest degradation trends in the mid-hills. Over the past three decades, the government has gradually transferred government-managed forests to communities for their management under various models.[4] Community-based forest management (CBFM) was originally promoted to achieve conservation outcomes and meet household forest subsistence requirements. CBFM has the potential to meet not only conservation goals but also a significant portion of the domestic demand for timber and other forest-products. About 2 million hectares (34%) of Nepal's forests are now managed by some 20,000 community forest user groups (CFUG). CBFM remains a priority development program under the 14th National Development Plan. Another successful approach involving communities is collaborative forestry which shares the use rights of forest resources among the communities, and local and central governments. The Government of Nepal intends to hand over additional government-owned forest area to communities for sustainable forest management balancing socio-economic and environmental objectives.

Indigenous Peoples and local communities have been living in the project area for generations, and their cultural and traditional values associated with natural resources and forests contribute to the conservation and protection of forests. The project area represents a cultural mosaic that is currently inhabited by the following broad groups of people:



- Groups comprised of Hindus and Adhibasi/Janajatis (IPs) of Hill origin who migrated to and settled in the area, particularly after 1950.
- People who have been living in the region for centuries and prefer to be recognized as Adhibasi/Janajatis of the Nepal Terai. These include the Tharus, Dhimals, Tajpuriya, Rajbanshis, Gangai, Majhis, Kumal, Darai and Danuwar.
- People of the Terai Hindu (also known as Madhesi) with a social structure including the Brahmins (Maithili) and untouchables (Dom, Halkhor).
- Muslims.
- Others (e.g., the merchant groups of Indian origin such as Marwaris, Bengalis and Sikhs).

Overall, IPs (in both the Hills and the Terai) represent the largest segment of the population (31%), followed by High Caste Hill Groups (24%) and Madhesis (23%). Dalits (12%) and Muslims (9%) are minority groups that form the remainder of the Terai population.

Recognizing this, the FIP supports a special grant for Indigenous Peoples and local communities, the Dedicated Grant Mechanism (DGM). The DGM is separate from the FIP investment project and 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 FIP *Forests for Prosperity* project *Forests for Prosperity (FFPP)*. The FFPP and DGM are mutually supportive of each other and complementary.

Indigenous Peoples and local community groups (IPLC) have formed a National Steering Committee which will govern the DGM Nepal. The members of the NSC were selected through a highly participatory and inclusive process over the duration of 10 months. The NSC has developed "Rules of Procedure" which allows for a transparent decision-making process for the DGM Nepal. The Co-Chairs of the NSC are the chairpersons from FECOFUN and NEFIN.

Relationship to CPF

The project is consistent with Nepal's Country Partnership Framework FY19 – 23 which fully embraces the World Bank Group (WBG)'s goal to reduce poverty and increase shared prosperity in a sustainable manner. The WBG aims to support Nepal's new federal system that can deliver on higher sustained growth for poverty reduction, inclusive development, and shared prosperity in a sustainable manner. To adjust to the emerging political and institutional structure in the country, the federalism agenda will directly or indirectly underpin future WB program at the strategic, policy, and operational levels. Nevertheless, the new federal system poses challenges for the country and may be a source of instability against a backdrop of heightened popular aspirations. In the early years of federalism, while the roles, responsibilities, and accountabilities of different levels of government are being clarified, there is a risk of weakening governance and increased rent seeking behavior, deteriorating public services and infrastructure, increasing uncertain investment climate, and unchanging or increasing exclusion or inequity.



The Bank’s engagement in support of Nepal’s forests is consistent with the three CPF priority areas: (i) strengthening public institutions; (ii) private sector led jobs and growth, and (iii) Inclusion and resilience.

The Bank’s engagement seeks to enhance the contribution of the forest sector to economic growth, livelihoods, job creation, and prosperity; and to improve the regulatory framework as well as system capacity (particularly at municipal and provincial levels) for managing the environment and natural resources, including forests. One of the objectives of inclusion and resilience is improved adoption of sustainable natural resources management, about which CPF states that “[t]he World Bank will support Nepal’s efforts towards sustainable use of natural resources to enhance resilience and underpin economic growth”. The project will also support the Maximizing Finance for Development approach as the project has significant potential to generate forest-based private sector solutions to meet the domestic demand for round wood and quality timber and non-timber products.

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C. Project Development Objective(s)

Proposed Development Objective(s)

The project development objective (PDO) is to improve the capacity of Nepal's indigenous peoples and local community groups for sustainable management of forests and increasing the income of forest-dependent communities in selected forest landscapes.

Key Results

- Forest land managed in accordance with site-specific sustainable forest management plans (ha);
- Share of targeted forest-dependent people with rating ‘Satisfied’ or above on project interventions (livelihoods, forest management, other) Policies and regulations in place at federal, state and municipal levels supporting SFM (#)
- Share of targeted forest-dependent people with increased income from SFM (% , disaggregated by gender)
- Share of targeted forest-dependent people with rating ‘Satisfied’ or above on project interventions (%) (disaggregated by sex) (focus: access to forests and forest management, livelihoods aspects) (citizen and gender indicator)

D. Preliminary Description

Activities/Components

The DGM Nepal project is consistent with the "Design for the Dedicated Grant Mechanism for Indigenous Peoples and Local Communities to be established under the Forest Investment Program" and the "Framework Operational Guidelines for the Dedicated Grant Mechanism" approved by the FIP-Sub-Committee and the WB Board-approved Program Document for a Dedicated Grants Mechanism for indigenous Peoples and Local Communities (DGM)".



Component 1. Small Grants Mechanism

- activities as per call for proposals agreed by the NSC, including SFM activities, small business development, supporting sustainable NTFP harvesting and value addition.

Component 2. Capacity Development for IPLC Groups

- proposal writing
- training on SFM
- training on business development
- capacity building on international policy architecture in support of forests (e.g. UNFCCC, UNCBD and related funding mechanisms)
- capacity building of NSC

Component 3. Project management, monitoring and knowledge

- support to administrative activities of the NEA
- development of knowledge products and organization of knowledge sharing events

Once the National Executing Agency (NEA) has been selected, the NEA together with the National Steering Committee (NSC) and supported by the World Bank will develop the details of the DGM project. Hence, the activities mentioned under each component are indicative and not inclusive. They are modeled on activity categories supported by other DGM projects.

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Environmental and Social Standards Relevance

E. Relevant Standards

ESS Standards		Relevance
ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4	Community Health and Safety	Relevant



ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
ESS 8	Cultural Heritage	Relevant
ESS 9	Financial Intermediaries	Not Currently Relevant

Legal Operational Policies

Safeguard Policies	Triggered	Explanation (Optional)
Projects on International Waterways OP 7.50	No	
Projects in Disputed Areas OP 7.60	No	

Summary of Screening of Environmental and Social Risks and Impacts

The project will mostly generate positive social and environmental impacts, since proposed activities will promote sustainable management of natural resources, including forests in areas where local communities depend on these resources to sustain these livelihoods. However, as project activities will be carried out in the vicinity of forested areas or natural habitats certain adverse impacts may be induced, which will in turn require safeguards attention. The associated impacts could pertain to biodiversity, forests, soil erosion and landslides/ slope stability, health and safety, and use of hazardous chemicals. The Environment and Social Management Framework (ESMF) prepared and disclosed for the FFPP will be adopted for, and applied to, the DGM project. As a result, this ESMF will have to include and make reference to the DGM project. The ESMF, which is currently under preparation, will include a Process Framework (PF) that addresses potential adverse impacts from the restriction of community access to natural resources. Furthermore, the ESMF will include a screening tool which will be applicable for sub-projects supported under both the DGM project and the FFPP.

CONTACT POINT

World Bank

Contact :	Andrea Kutter	Title :	Sr Natural Resources Mgmt. Spe
Telephone No :	473-4231	Email :	
Contact :	Kennan W. Rapp	Title :	Senior Social Development Spec
Telephone No :	5220+81098 /	Email :	

Borrower/Client/Recipient

Borrower : National Executing Agency

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Contact : Pasang Dolma Sherpa
Telephone No : 9774379560

Title : President
Email : pdsherpa@cipred.org.np

Implementing Agencies

Implementing Agency : National Executing Agency

Contact : Pasang Dolma Sherpa
Telephone No : 9779851101564

Title : Executive Director
Email : pdsherpa2008@gmail.com

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

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