

**Forest Investment Program (FIP)**  
**Consultative Mission**  
**October 17 – 28, 2016**  
*Aide Memoire*

1. A World Bank team<sup>1</sup> led by Mr. Drona Raj Ghimire (Senior Environmental Specialist) participated in a consultative mission to assist the Government of Nepal (GoN) in the preparation of the Investment Plan (IP) under the Forest Investment Program (FIP). The objectives of the mission were to discuss the scope of the FIP IP and its preparation process by consulting with various stakeholders, including civil society organizations and Indigenous People's organizations. In addition, the mission introduced the FIP Dedicated Grant Mechanism for Indigenous Peoples and Local Communities (DGM) to relevant stakeholders and clarified the process for its design.

2. The mission team extends its appreciation to the GoN, development partners and other key stakeholders for their cooperation and participation in the mission. The team had extensive discussions with government officials from the Ministry of Forest and Soil Conservation (MoFSC), including the REDD Implementation Centre (RIC), the Ministry of Agriculture and Development (MoAD), and the Ministry of Finance (MoF) (see Annex-1 for names of officials met by the mission). The mission also met with key development partners including DFID, SDC, USAID, and GIZ.

3. This Aide Memoire details the mission's main recommendations and outputs that were formally discussed at a wrap-up meeting held on October 28, 2016 chaired by the MoFSC Joint Secretary Dr. Sindhu Dhungana, Chief of REDD IC. As agreed at the wrap up meeting, this Aide Memoire will be classified as a public document as per the World Bank's Access to Information policy.

4. The World Bank team discussed the objectives of the mission with the MoFSC Secretary Dr. Krishna Chandra Paudel and briefed him on (i) background and key features of FIP; (ii) objectives of the joint mission and activities to be undertaken during the mission; and (iii) investment opportunities under the FIP<sup>2</sup>. The Secretary expressed the GoN's interest in further pursuing these funding opportunities and other potential support from the Bank. Specifically, the Secretary pointed out the need for quality timber for earthquake reconstruction efforts, development of timber seasoning and treatment facilities, and balancing both conservation and development objectives. He further identified investment needs to support all four pillars of the 'Forestry for Prosperity' vision of the Ministry<sup>3</sup>. The mission reiterated earlier requests for reinforcing the human and financial capacity of the REDD IC to facilitate the preparation of the ER-PD and the FIP IP.

**5. Discussions with the Department of National Parks and Wildlife Conservation and National Trust for Nature Conservation:** The officials stressed the immense opportunities for revitalizing the national economy through nature-based tourism. Investments however are needed for the development of essential infrastructure,

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The team comprised of: Drona Raj Ghimire (Senior Environment Specialist and Co-Task Leader), Andrea Kutter (Senior Operations Officer and Co-Task Leader), Madhavi Pillai (Senior Natural Resources Specialist), Rajesh Koirala (Carbon Finance Specialist), Annu Rajbhandari (Environmental Specialist), and Sulochana Nepali (Program Assistant).

<sup>2</sup> a program under the Climate Investment Funds

<sup>3</sup> The pillars include sustainable management of forests, protected area and tourism development, forest utilization, and enabling environment.

establishment of information systems, and market promotion. The need to focus on protected areas located in the mountainous region of Nepal, which are lesser known both nationally and internationally, was highlighted.

6. **Discussion with the Ministry of Agriculture and Development (MOAD) :** The Secretary MOAD, Mr. Mr. Udaya Chandra Thakur emphasized the MoAD's priorities on linking farms and forestry, commercialization of high value products, rangeland and pasture management, forest management for timber, forage and fodder production, and promotion of herbs. He also noted that the Agriculture Development Strategy prioritizes a gender-balanced labor force, mechanization of agriculture to increase yields, and bringing degraded lands back into productive use. The need for additional financial resources in these priority sectors was highlighted.

7. **Discussion with the Ministry of Finance (MOF):** The Joint Secretary Dr. Baikuntha Aryal, emphasized the need to look beyond forest conservation and to start linking forests to sustainable livelihoods for forest-dependent communities. He emphasized the need to promote sustainable production of timber products and nature-based tourism as priority areas for development. The Under Secretary Mr. Surya Prasad Pokharel suggested that the REDD IC expedite the preparation of the FIP IP, and closely coordinate the activities financed by FIP and the DGM. He also requested the mission to explore whether the deadline to submit Nepal's FIP Investment Plan could be extended, given the challenging circumstances created due to the earthquake and economic blockade.

8. **Discussion with the National Planning Commission:** The Member of the National Planning Commission Dr. Prabhu Budhathoki stated the need for a multi-sectoral institutional setup and policies would facilitate the collaboration and coordination among multiple sectors such as agriculture, forestry, livestock, environment, and infrastructure. He expressed his commitment to provide any necessary support to make the FIP successful in Nepal. Priorities in the forestry sector include support to the reconstruction efforts, reforming the forestry sector, and optimizing its revenue contribution to the national economy. He advised the mission team and REDD IC to design the program in a way that is feasible, sustainable, beneficial to Nepal's society, and effectively delivers results.

9. **Discussion with Bilateral Donors:** The mission discussed the FIP and Nepal's investment needs with DFID, GIZ, SDC and USAID. Representatives from DFID and SDC shared experiences and lessons learned from the recently closed Multi-Stakeholder Forestry Program (MSFP) and urged the team to consider these for the design of Nepal's IP. The MSFP and the FIP have very similar features such as a programmatic, partnership-based and multi-stakeholder participatory approach. Lessons such as clarifying operational procedures for the program, monitoring the capacity of implementing entities, measurement of progress based on results rather than disbursement amounts; and the regular assessment of the political economy need to be carefully considered in the design of Nepal's FIP IP. DFID informed the mission that it has decided to discontinue its direct support to Nepal's forestry sector and focus attention on climate change adaptation and resilience with Ministry of Population and Environment. On the other hand, the Swiss Embassy is undertaking a scoping exercise to identify areas for engagement in the forestry sector. The scoping study has identified two options: (1) livelihood and poverty reduction focus through public land, agroforestry, and fallow land management; and (2) economic development model through active forest management, commercialization of non-timber forest products and value addition. The Swiss Embassy officials expressed interest in collaborating with the World Bank on the FIP. The



USAID representative suggested that the team focus on upstream and downstream watershed linkages, a binding framework for resource governance in the context of the ongoing federalization process, and involving the private sector in forest-related activities. The GIZ representative provided an update on GIZ supported REDD activities that are embedded in ICIMOD's work plan. GIZ has invested €300,000 in income generating activities related to REDD+.

10. **Workshop on the FIP Dedicated Grant Mechanism (DGM) for Indigenous Peoples and Local Communities :** The Government of Nepal, represented by REDD IC, and the World Bank organized a full day session to introduce the DGM to wide range of stakeholders. The mission presented the concept and objectives of the DGM, and highlighted the principles, governance mechanism and processes to access the FIP resources made available for the DGM. Indigenous Peoples (IP) and local community (LC) groups highly appreciated the support from the World Bank to strengthen their capacity to engage in REDD+, including on-the ground investment opportunities. IP and LC representatives delivered presentations providing an overview of their social structure, organization and economic activities related to forests and trees. Participants suggested that the term "Local Communities" should be defined in the Nepalese context so that different classes – Dalit, Muslim, Madhesi and women – do not get excluded from potential opportunities supported by the DGM.

11. Participants shared their expectations for the DGM in Nepal, which include the following:

- ensure the rights of religious, gender and geographic minorities and poor over natural resources;
- acknowledge community-based forest management groups, such as community forestry user groups, as the key entry point for securing rights for local communities;
- build capacity to effectively engage in natural resource management;
- implement DGM activities using a rights-based approach;
- ensure that forest users in remote areas also get access to income generation activities and other benefits from forests; and
- design the DGM in a way so that it is highly inclusive, participatory and transparent.

12. They requested that these expectations be carefully monitored and managed by the task team. In addition, the team confirmed that the Government of Nepal would be an observer to the DGM design and implementation process to ensure that DGM activities are complementary to large-scale investments that will be supported under Nepal's FIP IP and consistent with national laws.

13. As a next step, REDD IC will convene a meeting of the interim Steering Committee that was formed in the process of submitting Nepal's Expression of Interest (EOI) for the FIP, and facilitate – in conjunction with IP preparation – the formation of the National Steering Committee (NSC) for DGM Nepal. The NSC would then develop the terms of reference for the National Executing Agency (NEA) which will be the fiduciary agent for the World Bank and act as the Secretariat for the NSC. The World Bank will support the NSC in drafting the TOR and approve the final selection.

14. **Workshop on the Forest Investment Program:** During a three day workshop, the mission discussed with the Government of Nepal and other stakeholder groups the objective for the FIP in Nepal, main areas of investments to be supported by FIP, expectations from various stakeholder groups, and a timeline for finalizing the plan. Secretary MOPE, MOAD, MoFSC, and NPC member highlighted investment needs in the forestry sector and opportunities to further enhance the role of forests in other sectors and for economic growth and prosperity. Speakers considered FIP as a great opportunity to address the challenges and opportunities for forests in Nepal in a strategic and programmatic approach which will crowd-in technical expertise and finance from various sources, including other development partners. The Bank expressed its commitment to the proposed programmatic approach and using FIP in support of forest and forest-smart investments in Nepal consistent with the WBG Forest Action Plan FY 16-20. Annex 3 contains further information regarding the FIP Workshop.

15. The summary of workshop presentations and discussions will be made available through comprehensive workshop proceedings.

16. **Brief Background on the FIP:** The FIP provides investment resources to public and private sector entities to incentivize transformational changes in the forest sector and sectors affecting forests in support of countries' sustainable development goals, including their REDD+ objectives and NDC priorities.

17. Through an IP, FIP promotes a programmatic approach that encourages countries to strategically address their forestry challenges and explore opportunities for forest-smart investments at national or jurisdictional levels (for visualization, see Annex 3). FIP investments contribute to climate change mitigation and mainstreaming climate resilience considerations as well as enhancing multiple benefits such as protecting biodiversity and other ecosystem services; strengthening the capacity of Indigenous Peoples groups and local communities to engage in national and local decision-making processes; and reduce poverty by exploring enhanced livelihood options.

18. Nepal's Expression of Interest (EOI) to become a pilot country for the FIP was approved by the FIP Sub-Committee in May 2015. Nepal received a FIP funding allocation in the amount of US\$ 24 million (US\$6.1 million in grants and US\$17.9 million in highly concessional loans). In addition, the GoN received a US\$250,000 grant to prepare the Forest Investment Plan. Under the FIP, Nepal will also receive an additional US\$4.5 million grant to develop and implement the DGM. FIP resources are "new and additional" and should be used to leverage additional financing from the public and private sector as well as other development partners.

19. The mission informed the GoN about the procedures for developing the IP. The FIP preparation grant will be used to carry out necessary analytical and technical work as well as consultations with a view to finalize the plan in time for consideration by the FIP Sub-Committee in Spring 2017. The implementation of the preparation grant will be done in close coordination with the implementation of the additional REDD readiness grant and the development of the ER Program to maximize results, avoid overlaps and use data and information generated by these programs.

#### **Key Issues and Agreements on the FIP**



20. The MoFSC recognized the challenges associated with the tight time line for preparing the FIP Investment Plan for Nepal. It was agreed that the Semi-Annual Report on FIP Operations to be submitted to the FIP Sub-Committee will provide an update on progress with the development of Nepal's IP and identify the challenges that might jeopardize the finalizing of the plan ahead of the June 2017 meeting of the Sub-Committee.

***Agreed Actions***

21. Based on the detailed discussion with RIC and MoFSC, the following actions were agreed:

<b>Key Actions</b>	<b>Date</b>	<b>Responsibility</b>
Process FIP preparation grant and sign agreement	November 25, 2016	MoF and WB
Finalize Terms of Reference to hire consultants for preparation of Investment Plan	November 30, 2016	RIC
Finalize timeline for the development of the Investment Plan, including consultations	November 30, 2016	RIC
Finalize FIP DGM National Steering Committee	November 30, 2016	IPs and LCs, RIC
Hire consultant (s) to prepare the Investment Plan	December 20, 2016	RIC
Final draft of Investment Plan	March 15, 2017	RIC
Independent review of FIP Investment Plan for Nepal	December - April 2017	WB, CIF Administrative Unit
Submission of IP to the FIP Sub-Committee	May, 2017	RIC

***Next Mission***

Next FIP preparation mission is tentatively planned for April 2017.

## **Annex 1: List of Persons Met**

### **National Planning Commission**

Dr. Prabhu Budhathoki, Member, NPC  
Mr. Balkrishna Ghimire, Joint Secretary, NPC

### **Ministry of Forests and Soil Conservation**

Dr. Krishna Chandra Paudel, Secretary  
Mr. Sagar Rimal, Under Secretary, Foreign Aid Coordination Division  
Mr. Rajendra Kafle, Joint Secretary, Forest Enterprises and Management Division

### **Ministry of Finance**

Dr. Baikuntha Aryal, Joint Secretary  
Mr. Surya Prasad Pokharel, Under Secretary

### **Ministry of Agriculture and Development**

Mr. Udaya Chandra Thakur, Secretary

### **Department of National Park and Wildlife Conservation**

Mr. Gopal Prakash Bhattarai, Acting Director General  
Dr. Maheshwar Dhakal, Deputy Director General

### **REDD Implementation Centre**

Dr. Sindhu Dhungana, Joint Secretary, Chief  
Mr Hari Pandey  
Ms. Srijana Shrestha  
Mr. Hari Laudari  
Mr. Chudamani Shrestha, Account Officer

### **National Trust for Nature Conservation**

Mr. Govinda Gajurel, Member Secretary  
Dr. Siddhartha B. Bajracharya, Executive Officer

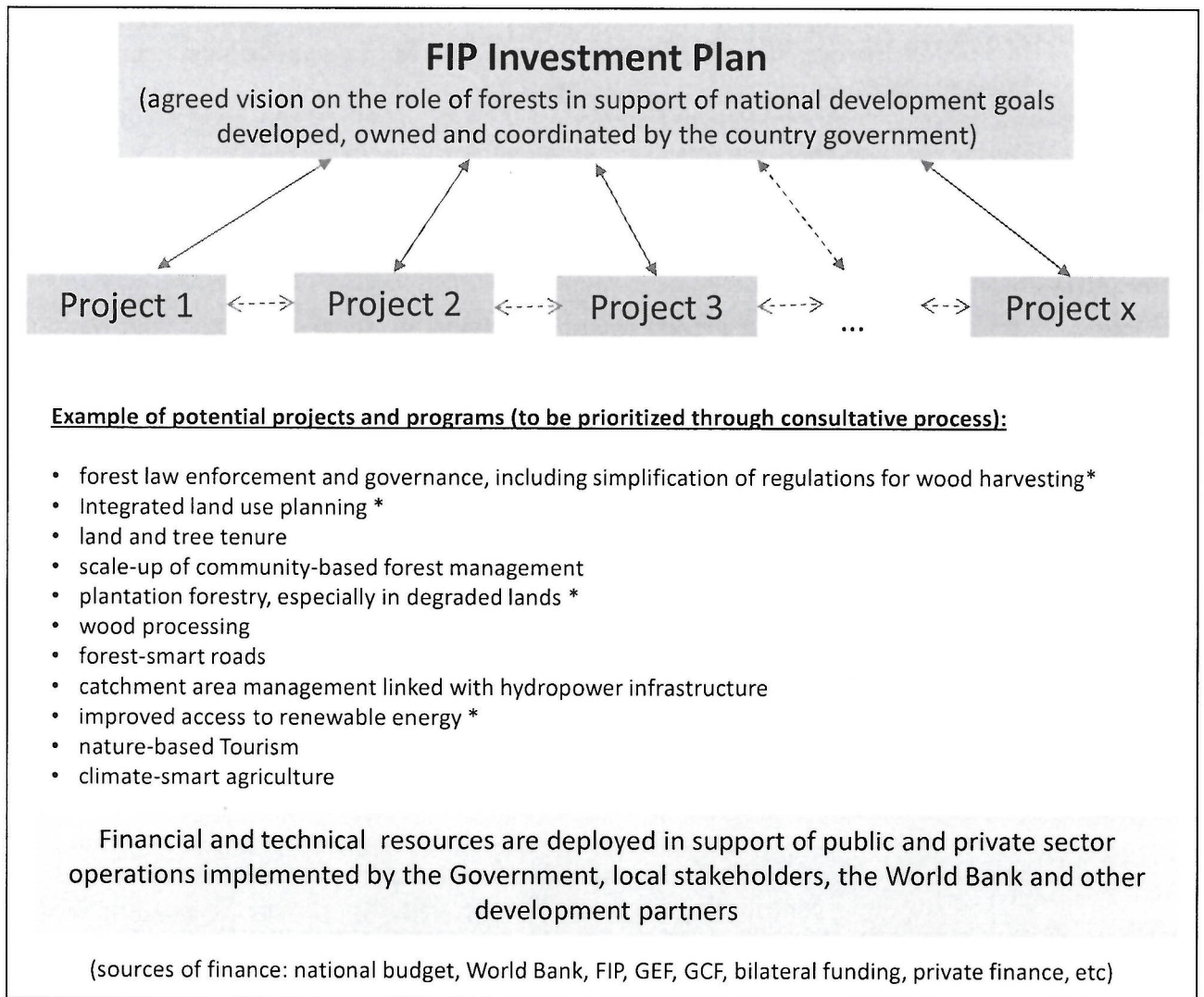
### **Representatives from Indigenous Peoples and Civil Society Organizations**

Ms. Pasang Dolma Sherpa, Center for Indigenous Peoples Research and Development  
Ms. Bharati Pathak, General Secretary, FECOFUN  
Mr. Ganesh Karki, Chairperson, FECOFUN  
Mr. Ghanashyam Pandey, Green Foundation, Nepal

### **Representatives from bilateral donors**

Mr. Diepak Elmer, Chargé d'Affaires a.i., Embassy of Switzerland in Nepal  
Dr. Manohara Khadka, Senior Program Officer, Embassy of Switzerland in Nepal  
Mr. Netra Narayan Sharma, NRM and GCC Programs specialist, USAID Nepal  
Ms. Annika Olsson, Economic Advisor, DFID, Nepal  
Mr. Kai Windhorst, Chief Technical Advisor, GIZ, Nepal

## Annex 2: Visualization of the Structure of a FIP Investment Plan



\*Activities identified in Nepal's ER-PIN under the FCPF Carbon Fund



### **Annex 3: Opening Session of the FIP Workshop**

The opening session of the FIP workshop was chaired by Dr. Krishna Chandra Paudel, Secretary MoFSC and opened by Dr. Prabhu Budhathoki, Hon. Member of NPC. The opening session was addressed by Dr Uday Chandra Thakur, Secretary, MoAD, Dr Bishwa Nath Oli, Secretary MoPE, and Mr Takuya Kamata, Country Manager, WB.

During the workshop, the following presentations were delivered.

- Introduction to Forest Investment Program - Andrea Kutter, World Bank
- Forest Ambitions: Prospects for Prosperity - Sindhu Dhungana, REDD IC, MoFSC
- Opportunities for Private Sector Investment in Nepal's Forestry - Bhisma Subedi, ANSAB
- The Economics of Forests: Forest Accounts - Deepak Kharal, DFRS, Jishnu Bhattarai, CBS
- Social Aspect of Forest: Women Inclusion in the Sector - Madhu Ghimire, MoFSC
- Social Aspects of Forests: Engagement of IPs in the Sector - Dandu Sherpa, NEFIN
- Social Aspects of Forests: Community-based Institutions - Thakur Bhandari, FECOFUN
- Nature-based Tourism and Forests - Govinda Gajurel, NTNC and Ameer Maharjan, DoNPWC, MoFSC
- Opportunities for Forest Investment in Watershed Management - Prem Paudel, DSCWM and Annu Rajbhandari, World Bank

Some civil society organizations strongly urged the government not to accept loans provided by the FIP. In their opinion, Nepal as a least developed country has played no role in contributing to climate change, therefore climate finance provided to Nepal should be in the form of grants only. In addition, grants would also encourage community forest user groups to continue conserving the forests. Other stakeholder groups such as the private sector and MoF stressed that forestry is a productive sector that contributes to income generation, employment creation and poverty reduction – hence, a concessional loan would be an appropriate instrument for investments.

The mission further clarified that the FIP IP should not be limited to programming the available FIP funding (\$24m, of which \$6.1 million are grants and \$17.9 million are highly concessional loans), but should also identify additional activities that may attract financial support from other funding sources for technical assistance and investments.

Through group work, participants identified prospective areas for investment, for example improved forest management, import substitution of wood/timber, fostering domestic wood processing, nature-based tourism, handicraft industries, bamboo plantation, micro enterprise development, forest certification, integrated watershed management, value addition of non-timber forest products and livelihood improvements. These ideas will be further explored and expanded during the development of the IP.