

Nepal Country Forest Note: Clear Analysis but Less Clear on How to Achieve Forest-smart Solutions

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January 10, 2019



Overview: A Good Approach, Needs Benchmarks and Upstream Alignment

The Nepal Country Forest Note (CFN), dated February 1 and publicly disclosed September 28, 2018, highlights the untapped potential of the forestry sector in Nepal for economic prosperity and climate co-benefits. The Bank's proposed response to the analysis is to support Nepal's "Forests for Prosperity" agenda by investing in forests directly and minimizing tradeoffs that lead to deforestation and forest degradation in all projects through an "integrated landscape

approach." In this way, the CFN follows the approach of the World Bank Group's Forest Action Plan (FAP).

Released in April 2016, the FAP has two focus engagement areas: the sustainable management of forests and value chains, and "forest-smart" interventions throughout the rest of the World Bank Group lending portfolio.ⁱ

While it is commendable that the Nepal CFN also integrates this latter commitment to reduce deforestation, unclear benchmarks for successful implementation of forest-smart measures in sectors like energy, transport, and agriculture, and the lack of mention of the need for such measures in higher-profile upstream planning documents, risk a business-as-usual approach to major infrastructure projects that threaten forests and the people that depend on them.

Summary of the Nepal CFN

According to government data, forests cover 44.7% of land in Nepal.ⁱⁱ Meanwhile, Nepal remains a low-income country, with gross national income of \$730 per capita in 2016. The CFN highlights the challenges of addressing this underdevelopment as the Nepali

government transitions to federalism, and local and provincial governments will need significant additional capacity around natural resource management. The CFN’s characterization of the current state of forests in Nepal includes the following points:

- Forests contribute both directly (3.5% of GDP, 9% of employment) and indirectly to Nepal’s economy by supporting the energy, agriculture, tourism and transport sectors.
- Ecosystem services such as habitat provisioning, sediment retention, and water and climate regulation are being under-estimated in terms of their potential economic contribution. There is also significant potential for growing nature-based tourism outside of protected areas, which already draw almost half of tourists visiting Nepal.
- Progress was made over the last three decades to transfer government-owned forests to community-based forest management groups—these groups manage about 2 million hectares/34% of Nepal’s forests, but there is now a backlog of applications from communities for transfer
- The CFN identifies the following areas as the four main challenges to managing Nepal’s forests:
 - Drivers of deforestation and forest degradation
 - Nepal’s vulnerability to climate change and natural disasters
 - Low public and private investment in the sector
 - Weak policy and institutional environment

The World Bank currently relies on trust funds and other development partners to fund direct, pro-forest interventions in Nepal, while it plays an implementing role for the former and a convening role for the latter. The CFN does not specifically address how the Bank will work with the trust funds or other development institutions to address coordination and capacity-related challenges that impede pro-forest work.

For example, the CFN notes that the Emission Reduction Program (ERP) through the FCPF Carbon Fund could provide performance-based payments for GHG emission reductions generated through such activities as the transfer of national forests to community and collaborative forest user groups and expanding alternative energy. However, “several barriers need to be lifted to achieve these emission reductions,” including a lack of dedicated up-front financing. The CFN recommends a “partnership approach” to help Nepal with these implementation challenges, but does not specify what such an approach would look like.

In terms of its own financing, the World Bank response to gaps identified in the CFN could include investments in institutional strengthening for improved forest monitoring, planning and enforcement, plantation forestry in degraded lands, support for community forestry and sustainable forest employment.

On the ‘forest-smart’ side, the CFN lists opportunities within major sectors that it already supports in Nepal, such as making agriculture “climate-smart” and investing in agroforestry, improving access to solar, wind and small hydro, and using “green smart infrastructure” approaches to transport projects. It does not detail how forests are currently taken into account in World Bank projects in Nepal through forest-smart or climate-smart project interventions or the degree of success to which forest safeguards have been applied.

The nature of these proposed investments are not specified in great detail in the Nepal CFN, except that financing will come from “a menu of financial instruments to address identified barriers or opportunities and take advantage of synergies.” These could include grants for technical assistance under FIP and the IFC advisory services, performance-based payments for emissions reductions, FIP and IDA loans for investments with a clear financial return, and possibly guarantees to de-risk private investment.

Annex 3 of the CFN also identifies development policy financing (DPF) as a possible lending instrument to seize opportunities around sustainable forest management, plantation forestry, hydropower/catchment area management and disaster preparedness. Important to note is that while DPF can target specific sectors by conditioning financing on reforms that would most impact those sectors, it is non-earmarked funding that goes directly into a borrowing country’s general budget.

Alignment with upstream planning documents for World Bank investment in Nepal

The Nepal CFN notes that its contents informed the Nepal Systemic Country Diagnostic (SCD), a document produced by the World Bank that identifies key development challenges and priority areas. The SCD in turn forms the basis for the Country Partnership Framework (CPF), which is co-produced with the government to set out a road map for World Bank investment in Nepal from FY19-FY22.

The Nepal SCD covers the significance of Nepal’s forest cover and its importance to the economy. It also highlights ‘harnessing the potential of natural resources’ as one of its six priorities. Its emphasis is mainly on making forests more economically productive- though it does discuss the importance of curbing deforestation to reduce environmental

disaster risk, and to achieve Nepal’s Nationally Determined Contribution (NDC) to the fight against climate change.

The SCD mentions the need for better regulation for sharing the benefits of natural resource development, and importantly notes that current permitting procedures for forest activities favor powerful elites. It also calls for “clarity on institutional arrangements to support and protect natural resource management”. However, these points revolve around a more primary one— that “infrastructure in hydropower, roads, and irrigation needs to be built.” The SCD does not use the term ‘forest-smart’ or ‘climate smart’ in its discussion of the investment needs in the energy, transport and agriculture sectors, nor does it mention the CFN or the FAP.

The Nepal CPF references an upcoming forest engagement note— which we can assume is the CFN— as a method by which the World Bank will engage in dialogue around sustainable natural resources management in Nepal. The CPF narrative reiterates and significantly expands on the discussion of forests in the SCD- the importance of reducing deforestation to prevent and mitigate environment/climate disaster, to earn Nepal payment for GHG emission reduction and to meet its NDC. The CPF also identifies climate change co-benefits as a cross-cutting theme across its proposed investment portfolio in Nepal.

The CPF Results Matrix identifies CPF objectives and the proposed World Bank support to achieve them. Objectives around power generation and access to electricity through hydropower, transport connectivity, and job creation and growth through agricultural productivity hardly mention forest protection as a necessary consideration or as a way the Bank can add value beyond its financial support. Objective 2.1. *Improved power generation capacity and access to electricity* refers to IFC advisory services to “improve bankability and environmental and social standards of key hydropower projects” to attract qualified investors. This is an insufficient and vague measure for safeguarding forests, particularly given [recent criticism](#) aimed at IFC’s lack of attention to negative environmental impacts of projects it finances through financial intermediaries and well-documented environmental risksⁱⁱⁱ associated with large dams.

CPF Objective 3.4. *Improved adoption of sustainable natural resource management*, importantly identifies “increased demand for agricultural land, lack of access to improved technology, absence of inclusive forest policy process, weak rule of law and social inequality” as drivers of deforestation that impede progress towards Nepal’s NDC. However, it also importantly omits poorly planned energy, transport and agriculture projects as potentially major drivers of deforestation, and in doing so misses an important opportunity to elaborate on the “forest smart” interventions proposed in the CFN.

An additional concern within the Nepal CPF comes in the summary of the program evaluation of the Nepal Country Partnership Strategy (FY14-FY18) that preceded the CPF. One of the lessons learned in that summary is to streamline processes for land acquisition, compensation and forest clearance processes to achieve timely and satisfactory progress for transmission lines. The lacking detail around how to balance environmental and social protection in these streamlined processes raises red flags, especially in light of a recent Inspection Panel [investigation](#) into the Khimti-Dhalkebar Transmission Line ([see 2015 report](#) from Accountability Counsel), which found violations of World Bank policies related to environmental assessment, consultation and resettlement, among others.

Conclusions & Questions

While the World Bank chose Nepal as a priority country for upstream analysis of opportunities and challenges related to forests, the CFN lacks clarity around:

- 1) how the World Bank will ‘put its money where its mouth is’ and help the trust funds it facilitates and the development partners it convenes overcome institutional, capacity-related and financial barriers to success in their forest programming.
- 2) how investments in the energy, transport and agriculture sectors will incorporate forest-smart interventions and an ‘integrated landscape approach’— a shortcoming that is further diluted in both the SCD and CPF.

That the SCD and CPF both fail to mention the Forest Action Plan is also problematic— while the Government of Nepal is not beholden to the forest commitments of the World Bank, the CPF should put proposed investment in the context of the FAP to promote transparency and upstream harmonization of standards around forest protection.

The Nepal CFN should have also included a candid discussion of the opportunities and challenges associated with the different lending instruments contained within its proposed ‘programmatically approach.’ Take DPF, for example. The challenges of using DPF to reach goals around sustainable forest management when by nature it cannot specifically target (read: directly finance) the most vulnerable ecosystems and populations, or to boost the hydro sector when its policy on assessing environmental risk is significantly less robust than for investment loans, should be made explicit.

A few final questions: Were there opportunities for civil society and communities in Nepal to engage with a draft version of the CFN? If not, why not? And how can their voices be incorporated into World Bank investments that impact forests going forward?

References

ⁱ Access the FAP for more information here: <https://openknowledge.worldbank.org/handle/10986/24026>

ⁱⁱ This is as reported by Nepal's Department of Forest Research (Dec. 2015):

[http://www.dfrs.gov.np/downloadfile/State%20of%20Nepals%20Forests%20\(DFRS\)_1457599484.pdf](http://www.dfrs.gov.np/downloadfile/State%20of%20Nepals%20Forests%20(DFRS)_1457599484.pdf). It

equates to 5,962,438 hectares (59,624 km²) and includes both forest, 40.36 %, and 4.38% of "other wooded land." The International Centre for Integrated Mountain Development (ICIMOD), a regional intergovernmental knowledge center, assessed Nepal's forest cover in 2010 as 57,538 km², or 39.1%, implying an increase in forests of 2,086 km², 2011-15.

Global Forest Watch reports 2010 data showing 26% tree cover (3.89M ha.) and FAO reported 25.4% as of 2005; the latter is still carried on the World Bank [website](#), but none of the sources addressed these discrepancies.

ⁱⁱⁱ See supporting evidence from World Wildlife Fund: <http://wwf.panda.org/?13716/Rivers-at-Risk-Dams-and-the-future-of-freshwater-ecosystems> and International Rivers:

<https://www.internationalrivers.org/environmental-impacts-of-dams>