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ISSUES PAPER

NEPAL - Forestry Development Project (367-0158)

I. Summary Description:

Funding FY 88	600,000 (ARDN)
LOP	7,000,000 (ARDN)

A. Master Plan/Forestry Program: The Forestry Development Project supports key elements of a \$35 million multi-donor Forestry Program implementation of a significant redirection of forestry sector policy set forth in a draft Master Plan. Other donors include the World Bank, UNDP, SIDA and DANIDA among others. Development of the Master Plan was a cooperative effort funded by the ADB and FINNIDA which builds on a large number of evaluations by the GON and the donors of prior work in the forestry sector.

Essentially, the proposed Forestry Program aims to return control and management of the previously nationalized forest lands to those who use them, need the forest products, and are in the best position to develop and manage forest resources, i.e. local communities. The heart of the Forestry Program is the implementation of this transfer process.

B. A.I.D. Inputs: Donor assistance to implement this program will be provided at all levels, the preponderance at the local level. However, institutional and policy issues are a key constraint to increasing the effectiveness and sustainability of field forestry programs in Nepal. Central to success of this program, therefore, is the need to establish effective forestry policy and planning functions at the national level capable of providing the policy/planning support required for implementation of the program at the local level. Among donors, both UNDP and A.I.D. are providing assistance at the central level. The Forestry Development Project proposes to directly address these constraints by strengthening planning capabilities at the panchayat (village), district, regional and national levels designed to identify forestry land to be handed over and then substantially increase the pace of transfer of these lands and management responsibilities.

Additionally, the A.I.D. project will provide assistance directed towards reduction of fuelwood demand through substitution of improved stoves.

II. Issues/Concerns:

The Project Review Committee identified three basic issues but there was not agreement as to whether they should be satisfied before the PID is approved. There were a number of concerns related primarily to the lack of information included in the PID. The concerns would be fully addressed in a PP.

A. Issues

1. Forestry Program/Master Plan: The proposed \$7.0 million A.I.D. project is part of \$35.0 million multi-donor effort based on a draft Forestry Master Plan. The PID not adequately present how the Master Plan strategy and concept, is to be transformed into a comprehensive, implementable forestry program, as well as which donors will finance what part of it over what period and at what level. In other words, the context of A.I.D.'s assistance in the overall multi-donor effort is unclear. For example, what is the content of each donor's effort in training and extension, and how do they interrelate? How do field programs support the policy/institutional objective of the overall program?

Question: Given the complex, interdependent, and as yet unclear, nature of the multi-donor program, should approval of the PID be delayed pending Washington review of the Forestry Program presented in the draft Master Plan.

2. Policy Framework: Success of the Forestry Program including the A.I.D. project is contingent on the implementation of a range of policy changes by a number of GON entities. In the past the government has not necessarily implemented announced policy changes. The PID does not address specific policies nor the risk that they will not be implemented. Will Mission support for a national forestry planning capacity advance GON acceptance and implementation of the Master Plan and its policy changes? What are the critical, prioritized policies that if not implemented would preclude Master Plan execution? What indications are there that critical policy changes will be implemented?

Question: Since the right policy environment is of critical importance to the Forestry Program and our project, should the Mission provide an analysis of the policy framework of the Forestry Program, and likelihood of successful implementation prior to PID approval?

3. Private Enterprise/Income Generation:

We understand the Forestry Program includes appropriate emphasis on private sector entities associated with the forestry sector. Since the PID does not explain the content of the Master Plan and overall program adequately, the role of the private sector in the program was not made clear, whether it be production-related enterprises (e.g. nurseries) or user enterprises (e.g. wood products industries). The private sector can and should play a major role in Nepal's forestry sector. Except for the stove component of A.I.D.'s project, our assistance is targeted at two GON offices.

Question: Prior to PID approval, should the Mission clarify the role of the Private Sector in the overall Forestry Program and specify how A.I.D. will interface with the private sector?

III. Concerns: The PRC recommends that the following concerns be fully evaluated and discussed in PP.

A. Socio-Economic Research: Is additional socio-economic research needed in the forestry area and should A.I.D. support it under this proposal, e.g., related to stove design? Who should do the research? What lessons were learned in the RAPT component for improved stoves?

B. Recurrent Costs and Sustainability: The PP should fully address the question of recurrent cost financing both during and after the A.I.D. project.

C. Evaluation: The PID does not discuss evaluation. Because of the program's comprehensive approach and multi-donor nature, monitoring and evaluation during the project and at its conclusion for lessons learned takes on special importance. The PP should fully discuss the plan for evaluation.

D. Institution Building: This is described as a decentralization project. Therefore, the PP should fully discuss our rationale for focusing our assistance at the national rather than the field level.

E. Donor Coordination: Donor coordination and consensus building will be important in pushing along policy reform and in optimizing donor assistance. The PP should discuss how this will be achieved.

F. Peace Corps Involvement: Since the Peace Corps will be involved in the program, methods for A.I.D. coordination with the Peace Corps in Washington and in the field need to be improved.

G. Stove Component: Does the stove component fit in this project? Given history elsewhere, what approach will be taken to ensure successful commercialization?

H. Women in Development: Given the important role women play in the forestry sector, the PP should fully address the need for strong WID input into the multi-donor program.

I. Budget Costing: Project costing in the PID is needs additional analysis and refinement before a \$7.0 million budget can be considered adequate; e.g., long term technical assistance at \$125,000 per year is probably much too low.

J. Lessons Learned: PP should provide a discussion of lessons learned from past forestry projects and relevant efforts under RAPTI and the rationale for why this new approach will work.

Overall Recommendation: The Mission, either through its representatives at the ANPAC or subsequently in cable submissions to AID/W, should provide adequate information to resolve the three outstanding issues identified above prior to unconditional approval of the PID.