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AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

PROJECT PAPER

NEPAL: Forestry Development
Project (367-0158)

September 11, 1989

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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number

DOCUMENT CODE: 3

2. COUNTRY/ENTITY

3. PROJECT NUMBER: 367-0158

4. BUREAU/OFFICE: USAID/NEPAL/ARD — 04

5. PROJECT TITLE (maximum 40 characters): Forestry Development

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 95

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 89 B. Quarter 4 C. Final FY 94

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 89 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	3 850		3,850	6,700	1,300	8,000
(Grant)	(3,850)	( )	(3,850)	(6,700)	(1,300)	(8,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	3,850		3,850	6,700	1,300	8,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) ARDN	183					3,850		8,000	
(2)									
(3)									
(4)									
TOTALS						3,850		8,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 160 | 720 | 740 | 850

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BRW	ENU	PVOU	TRN
B. Amount	6,000	1,000	500	500

13. PROJECT PURPOSE (maximum 480 characters)

Strengthen the capacity of the Ministry of Forests and Soil Conservation to implement the Master Plan for the Forestry Sector and to increase nationwide usage of improved stove models.

14. SCHEDULED EVALUATIONS

Interim MM 05 YY 92 | MM YY | Final MM 05 YY 94

15. SOURCE/ORIGIN OF GOODS AND SERVICES: ☒ 000 ☒ 941 ☒ Local ☐ Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment)

C. Travis Rattan
Controller

17. APPROVED BY

Signature: William Stacy Rhodes

Title: William Stacy Rhodes, Acting Mission Director

Date Signed: MM 09 DD 11 YY 89

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

PROJECT PAPER
FORESTRY DEVELOPMENT PROJECT (367-0158)

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ADAB	Australian Development Assistance Bureau
ADB	The Asian Development Bank
CFAD	Community Forestry and Afforestation Division
CFDP	Community Forestry Development Project
CIDA	Canadian Institutional Development Agency
DANIDA	Danish Institutional Development Agency
DFC	District Forest Controller
DFO	District Forest Officer
District	One of the 75 basic administrative units into which Nepal is divided
DLDAH	Department of Livestock Development and Animal Health
DNPWC	Development of National Parks and Wildlife Conservation
DOF	Department of Forests
DSCWM	Department of Soil Conservation and Watershed Management
EEC	European Economic Community
FAO	Food & Agriculture Organization (UN)
FDP	Forestry Development Project (367-0158)
FINNIDA	Finland Development Agency
GIS	Geographic Information System
Ha(s)	Hectare(s)
HMG	His Majesty's Government of Nepal
IBRD	International Bank for Reconstruction and Development
Ilaka	An administrative sub-division of the District; Each district has 9 Ilakas.
JOCV	Japanese Overseas Cooperation Volunteer
JT	Junior Technician
JTA	Junior Technical Assistant
LDO	District Local Development Officer
LRMP	Land Resources Mapping Project
MFSC	Ministry of Forests and Soil Conservation
MIS	Management Information System
MOF	Ministry of Finance
MPFS	Master Plan for the Forestry Sector
MPLD	Ministry of Panchayat and Local Development
NAFP	Nepal-Australia Forestry Project
NFY	Nepal Fiscal Year (approx. July 15 - July 14)
NPC	National Planning Commission
ODA	Overseas Development Administration (U.K.)
Panchayat	Village, an administrative sub-unit of districts.
PF	Panchayat Forest
PP	Project Paper
PPF	Panchayat Protected Forest
RECAST	Research Center for Applied Science and Technology
SDC	Swiss Development Corporation
SIDA	Swedish Institutional Development Agency
SWV	Society of Netherlands Volunteers
VSO	Volunteer Service Overseas (U.K.)
Ward	The smallest administrative unit, usually comprising a number of small hamlets. There are 9 wards in a Village Panchayat.
WDO	District Women Development Officer

PROJECT AUTHORIZATION

Name of Country : Nepal

Name of Project : Forestry Development Project

Number of Project : 367-0158

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended (the FAA), I hereby authorize the Forestry Development Project for Nepal (the Cooperating Country) involving planned obligations not to exceed eight million U.S. Dollars ($8,000,000) in grant funds over a five year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the project is six years from the date of initial obligation.

2. The Project will assist the Cooperating Country to increase the productivity and sustainability of forest production systems, by strengthening the Cooperating Country's institutional and financial capacity to implement programs described in the Forestry Sector Master Plan and by increasing nationwide usage of improved stove models. Budget support for implementation of the Forestry Sector Master Plan will be provided through local currency generated through kerosene imports financed under the Project.

3. The Project Agreement(s) which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms, covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

   A. Source and Origin of Commodities, Nationality of Services

   Except as A.I.D. may otherwise agree in writing:

   i. Commodities financed by A.I.D. under the project shall have their source and origin in countries included in A.I.D. Geographic Code 941 and the Cooperating Country, with the exception of kerosene;

   ii. Suppliers of commodities or services, except for ocean shipping, shall have their place of nationality in countries included in A.I.D. Geographic Code 941 and the Cooperating Country; and,

iii. Ocean shipping financed by A.I.D. under the project shall be financed only on flag vessels of countries included in A.I.D. Geographic Code 941 and the Cooperating Country, unless a separate waiver is obtained.

B. Conditions Precedent to Disbursement

i. First Disbursement: Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Cooperating Country will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) a statement of the name(s) of the person(s) authorized to represent the Cooperating Country, together with a specimen signature of each person specified; and

(b) a solicitation document for the procurement of kerosene by the Grantee which complies with applicable A.I.D. requirements.

ii. Additional Disbursements: Prior to any disbursement or to the issuance of documentation pursuant to which disbursement will be made for purposes other than kerosene imports, the Cooperating Country will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., documentary evidence that the Chief Planning Officer, heading the Planning Division of the Ministry of Forests and Soil Conservation, has been designated Project Director.

C. Covenant

Except as the Parties may otherwise agree in writing:

i. The Grantee shall establish a Special Account in a bank mutually agreed upon by the Parties and shall, not later than four (4) months from the date of delivery to the Grantee of kerosene financed hereunder, deposit in such account, local currency equivalent of U.S. $ 3,000,000 (U.S. dollars three million).

ii. The Grantee shall propose to A.I.D. on a trimester basis allocation and disbursement of Special Account funds as budget support for implementation of the Master Forestry Plan. Priority will be given to programs that promote private sector involvement in forestry. Disbursements shall be agreed upon on the basis of progress in policy implementation.

D. Waivers

i. The requirement in Section 110 of the FAA that the Cooperating Country provide assurances that it will furnish at least 25 percent of total project costs was waived by the Assistant Administrator for the Asia/Near East Bureau on June 30, 1989, per 89 STATE 227378, paragraph 7.

ii. Procurement of kerosene can be made from countries in Geographic Code 899, as approved by the Acting Director on September 8, 1989, justified as per HB1B, CH 5, Section 8.4.a.(1) and in keeping with Delegation of Authority 652 (9/1/86).

Signature: William Stacy Rhodes
William Stacy Rhodes
Acting Director

Date: September 11, 1989

I. EXECUTIVE SUMMARY

His Majesty's Government of Nepal (HMG), supported by both multilateral and bilateral donors, has embarked upon a new, long-term program to protect, develop, manage and exploit Nepal's forest resources. This program has been outlined in the recently approved Master Plan for the Forestry Sector (hereafter referred to as Master Plan). The Master Plan marks an important turning point in the approach towards this sector so vital to Nepal's long-term socio-economic development. The Plan represents the "best" in terms of donor and host-country cooperation and coordination, and provides the framework for all forestry assistance to Nepal over the next several decades, including USAID's Forestry Development Project.

A. Project Context

Before 1950, those people living adjacent to forests used them to fulfill their need for fuelwood, timber (for construction and poles), fodder and other forest products. Following restoration of the monarchy in 1951, it was determined that forests were an important part of the national wealth and that it was necessary to nationalize them in order to protect, manage, and utilize forests in a manner that would not lead to depletion. In many areas, remaining forest lands became common property resources because HMG had neither the funds, nor personnel, nor technical capacity to effectively protect and manage the vast areas of so-called national forest.

The accelerated decline of forests in the decades following nationalization led HMG to develop a National Forestry Plan in 1976. Its objectives were restoration of the natural balance, economic mobilization, practice of scientific management, development of technology and promotion of public cooperation. By the early 1980's, there was a growing consensus that the National Forestry Plan and, specifically, the community forestry program were not being implemented as effectively as they might be, and that the dire state of the forests seriously jeopardized the nation's future.

After three years of intensive work, the Master Plan exercise accumulated all available data on the forestry sector and carefully analyzed both the data and development experience of the past several decades. As a result, there is now a supply/demand balance analysis which demonstrates the seriousness of the situation over a twenty-five year time-frame. The Master Plan also shows how the current situation can be reversed through implementation of programs designed to:

- meet and sustain the requirements for fuelwood, fodder, timber and other forest products;
- support requirements for food and water by keeping a

steady flow of natural nutrients and water from forests to farms;

- o maintain a safe and wholesome natural environment;
- o conserve the ecosystems and genetic resources; and,
- o contribute to the growth of local and national economies by developing forest management and forest-based industries and creating opportunities for income generation and employment.

There are, in fact, twelve separate development programs contained in the Master Plan: six production oriented development programs; and, six support development programs. A large group of donors have indicated their readiness to provide support for the various programs including the World Bank, USAID, FINNIDA, CIDA, DANIDA, ADB, ODA, FAO, EEC, SDC, UNDP, and the Australian Government as noted in Figure I.

B. Project Activities

USAID's participation in the Master Plan process led to identification of two areas where the U.S. has a comparative advantage:

- o strengthening of the Ministry of Forests and Soil Conservation (MFSC) Planning Division by developing policy analysis, program budgeting and project planning and analysis capabilities; and,
- o developing an improved stove program within the national community forest program, including expanded capabilities for stove development, testing and distribution which builds upon traditional stoves and stove building skills, and dissemination of proven models through private sector production and marketing channels.

Subsequent to adoption by the HMG of the Master Plan and identification of donor roles in implementation, Nepal entered a period of economic crisis. About 60-70% of Nepal's total imports (recorded and unrecorded trade) come from India and, for some essential goods/products such as petroleum, Nepal is totally dependent upon the Indian market. India was Nepal's only export market for many primary products and semi-processed goods. Sudden imposition of a de facto trade embargo by India in late March, 1989 had severe and immediate impact on the economy. The one to two year transition to a restructured trade regime, where Indian trade plays no or little role, will involve severe readjustments in the economy and development program.

According to the HMG, the impact of this altered situation on implementation of the Master Plan is significant and

FIGURE I

MASTER PLAN PROGRAMS		SUPPORTING DONORS
PRIMARY DEVELOPMENT PROGRAMS:		
1. Community & Private Forestry		WB, UNDP, FAO, Australia, CIDA, ODA, SDC, USAID
2. National & Leasehold Forestry		ADB
3. Medicinal & Aromatic Plant Propagation & Utilization		ADB, UNDP
4. Forest-Based Industrial Development		ADB
5. Soil Conservation & Watershed Management		UNDP, FAO, ADB, EEC, FINNIDA
6. Conservation of Ecosystems & Genetic Resources		UNDP, FAO, ADB, USAID
SUPPORTIVE DEVELOPMENT PROGRAMS:		
7. Resource Information Systems & Management Planning		FINNIDA
8. Forestry Research & Extension		ODA
9. Human Resources Development		FINNIDA DANIDA USAID
10. Monitoring & Evaluation		FINNIDA
11. Institutional Reform		HMG
12. Policy & Legal Reform	1989-90: 1990-95:	ADB/FINNIDA USAID

Source: MFSC (1988)

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stems in large part from a reduction of domestic resources available to support activities designated as the responsibility of Nepal. USAID, therefore, determined that by providing additional funds to support "special local costs" of Master Plan implementation, successful implementation of the Master Plan during the critical initial two years would be more likely to occur.

The goal of the Forestry Development Project is to increase the productivity and sustainability of forestry production systems in Nepal through the promulgation of better policies and improved public and private forest management. The purpose is to strengthen the capacity of the Ministry of Forests and Soil Conservation to implement the Master Plan for the forestry sector and increase nationwide usage of improved stove models.

The project has three major components; Forestry Policy and Planning, the Improved Stove Program, and Master Plan implementation local cost support. USAID will work directly with the MFSC Planning Division and with the Community Forestry Development Division over the six year life-of-project. Project inputs include technical assistance, training, program support, a moderate amount of commodities, and local currency generated from sale of kerosene imports financed by the project.

The Forestry Policy and Planning component activities will be centered in the MFSC planning Division, carried out through both long-term and short-term technical assistance. As a crucial unit in the implementation of the Master Plan, the Planning Division is responsible for policy analysis and strategy formulation, program formulation, budgeting, monitoring and evaluation. Key actions to be performed by the Planning Division and long-term advisors include:

1. Strengthening of the Division and its planning system;
2. Institutionalization of planning functions, including program budgeting, at all relevant levels within MFSC;
3. Upgrading and expansion of analytical capabilities;
4. Improvements in project planning, analysis and evaluation; and,
5. Installation of a planning/programming information system.

Through the Improved Stove Program, which will design, construct and market improved wood-burning stoves for home and commercial use, the technical assistance personnel will work with the Department of Forests, women's organizations, communities and volunteer organizations. The major activities will include:

1. Development, production and marketing of new stove models;
2. Cookstove promotion; and,

3. Ongoing cookstove development

Although the two components are operationally distinct, there are important linkages between them on two levels. On the conceptual level, the Improved Stove Program will serve as a pilot program for testing new ways of tackling Nepal's natural resource management issues including a phased reduction of government subsidies and the use of demand driven, private sector production and marketing of stoves. Experience gained under this program will be carefully analyzed by the Planning Division with a view to possible wider applicability in other MFSC programs. On the practical level, support for the improved stove program under this project is designed to assist in moving the program in important new directions. For this to happen effectively in the relatively short period of time available, high level support from within the MFSC is essential. This support can be provided, in part, through linkage to Component 1.

Support of Master Plan implementation through USAID funding of local costs will be implemented as follows. To maximize impact, these funds will be used first to provide increased supplies of kerosene which is used as a substitute for fuelwood in heating and cooking. Proceeds from the sale will be placed in a separate special account. HMG will propose to USAID on a trimester (or, upon mutual agreement, a longer time-frame) expenditure of these funds to support specific local cost elements of Master Plan implementation. Prior to USAID agreement, a thorough review of progress on implementation of the forestry policy agenda will be undertaken and, if appropriate, special account release may be predicated upon HMG completion of policy actions.

C. Cost Estimates

Life-of-project costs in $000 are as follows:

Category	AID	HMG	Total
Technical Assistance	1,680	-	1,680
Training	653	70	723
Program Support Costs for Component I and II	1,063	545	1,608
Special Local Cost Support	3,000	-*	3,000
Commodities	448	-	448
Evaluation and Audits	190	-	190
Inflation	770	95	865
Contingency	196	22	218
Total Project Cost	8,000	732	8,732

* The Master PLan calls for HMG to contribute $95.9 million (in constant 1988 prices) between 1990 to 1995 and some 34.4% of all costs of Master Plan implementation over the twenty-one year period.

D. Results

In conjunction with other donor support, the Forestry Development Project will strengthen the capacity of MFSC to plan and implement the various programs outlined in the Master Plan for the Forestry Sector, with priority attention to the national community and private forestry program and implementation of the policy agenda. The project will directly assist the implementation of effective decentralization of MFSC programs and a crucial shift in both planning and forest management responsibilities from the government to local communities and individuals. More specifically, this project will significantly increase the HMG's institutional capacity to implement the policy framework set forth in the Master Plan through expansion and upgrading of the planning capabilities at various levels, institutionalization of program budgeting capabilities in the forestry sector, strengthening project planning and analysis, contributing directly to reduction of demand for fuelwood through development of improved stoves and increased supplies of kerosene, and strengthening private sector involvement in forestry by the dissemination of stove models through private sector marketing channels. The stove improvement component is expected to result in new designs of wood-burning cookstoves, both domestic and commercial, which have high fuel efficiency, low cost, user appeal and marketability. It is expected that new strategies will be implemented for sustained production and dissemination of certain cookstove models. A private sector program for continued development, promotion and services to producers and users of improved cookstoves will be established. The mechanism by which Master Plan implementation local costs will be supported permits close monitoring of progress in policy reform and directed support for development budget activities such as private leasing of forest land, private plantation and other programs of particular interest to USAID.

II. PROBLEM IDENTIFICATION AND PROJECT DESCRIPTION

A. Historical Perspective

Forest management in Nepal has passed through three distinct stages: pre-1950's, when forests were developed and managed by adjacent villages; 1950s to 1970s, when the HMG nationalized forests and tried to protect them from the people and, the post-1970's period, when the HMG tried with mixed results to enlist villagers support in performing the task of protecting and managing the forests.

1. Pre-1950 Period

Nepal was virtually out of contact with the rest of the world during this period. Forests were abundant, both in the hills as well as in the Terai. It is estimated that over 50 percent of the country's land area was covered by forest. Communication networks in the hills were rudimentary at best. Areas were only accessible by foot trails; this is still the case in most of the hill areas. The low lying plains of the Terai, though fairly accessible by the Indian Railway system, were still sparsely inhabited and densely covered with forest due to the prevalence of malaria. The Terai forests provided excellent habitat for a number of important flora and fauna. Except for a few places in the Terai, where selective cutting of high value commercial Sal trees by the government was undertaken in order to generate revenue (export to India for making railway ties), most of the forests were unexploited for commercial purposes. Local demand for forest products was not high, and people's needs were met without detriment to the sustained productivity of the forests. The hills, although heavily populated in comparison with the Terai, still had forests sufficient to supply basic forest products to the people. The people in the hills, because of their heavy reliance on forests to support hill farming systems, placed great value on the forests and, in some cases, had developed sophisticated local forest management systems. The Singo Nawa, elected forest caretakers of the Sherpa Community in the mountains, and the chitaidar, local non-official functionaries responsible for administering and controlling the use of forest in the hills, are two examples of traditional forest management systems evolved through the initiative of hill people. In the eastern hills, the kipat system of land tenure was practiced. Under this system, a designated group exercised exclusive and inalienable communal rights over a large land area including forests.

As the Nepalese society grew and became more complex, government and institutional efforts were introduced to supplement traditional conservation practices. One of the first major initiatives toward institutionalizing forest conservation took place in 1934 with the establishment of Ban Janch Adda, a forest office, for the protection and harvesting of the Terai forests.

2. 1950's to 1970's Period

In 1956, the office of Chief Conservator of Forests was established to manage and develop national forests. In 1957, private forests in the country were nationalized to protect and develop forests for the betterment of Nepalese society. The Forest Nationalization Act helped to transfer private forest ownership rights from a few powerful families and landlords to public ownership. This was the positive side of forest nationalization. On the negative side, the traditional system of forest protection by local communities was discontinued, and widespread cutting of public forests began, since people no longer considered these forests their own after nationalization.

The Forest Act of 1961 was designed to protect and manage the national forests for the welfare of the people. It also classified forests into different categories and established limits on the size of private forests. Development of private forests did not take place, however, due to confusion about who owned the land given the absence of a cadastral survey for most hill districts and the drastically reduced private land ownership ceiling imposed under the Land Act of 1964.

After eradication of malaria from the Terai during the early 1960s and following the natural catastrophe of heavy floods in most of the hills in 1961, HMG initiated a planned resettlement scheme involving substantial clearfelling of the Terai forests. A large number of hill people migrated to the Terai plain with the hope of a better life and new lands available for agriculture. The government resettlement scheme, however, could not absorb large scale migration, and rampant encroachment of the Terai forests began.

In 1967, HMG promulgated the Forest Protection (Special Arrangement) Act to protect national forests. This act, in addition to explaining preventive actions, gave authority to exercise police and judiciary power to territorial forestry officials. District forest offices in the Terai were also provided with armed forest guards to control deforestation and to enforce forest law. Despite this, substantial areas of the Terai forests were lost through encroachment and illegal settlement. Limited resource allocation to forestry development and an insufficient forestry field organization to enforce law in the face of escalated demand of the local population for forest products were other factors associated with rapid deforestation.

3. Post 1970's Situation

The National Forest Plan of 1976 identified the problems faced by the forestry sector and explained the broader national forest policy along with setting forth priority programs. The plan, for the first time, emphasized making use of local

communities in protection and management of existing forests as well as in plantation establishment.

The 1978 World Bank Forestry Sector Review of Nepal attempted to analyze the deforestation problem on the basis of demand and supply of essential forest products. It concluded that, with the on-going rate of afforestation and inefficient implementation of forest management plans, most of the forests in the middle hills and the Terai would disappear within two to three decades. It recommended that the government launch a national afforestation program at a much expanded rate, utilizing the full potential of the resources of the local communities. HMG responded by launching a community forestry program with initial emphasis on hill districts. This program, which represented a significant change in national forest policy direction, allowed transfer of national forest land to establish new plantations (Panchayat Forests or PF), and transfer of management and utilization responsibility for national forests (Panchayat Protected Forests or PPF) to local village panchayats. In addition, the Lease Forest Rules provided for a new dimension in the development of forests in Nepal, allowing private industries, individuals or entrepreneurs to lease degraded forest land for producing raw materials for various forest products industries. While implementation of PF and PPF rules was operationalized as indicated below, implementation of the Lease Forest Rules proved considerably more difficult. To date, two state-owned industries have been the only ones able to obtain forest land under leasehold arrangement with the Department of Forests.

In 1980, HMG, with the assistance of the World Bank, launched a large-scale Community Forestry Development and Training Project in 29 hill districts - out of a total of 75 administrative districts in Nepal - to implement its new community forestry policy within the framework of the PF and PPF Rules of 1978. During the first phase of this project (1980-1988), a number of other smaller community forestry projects covering one or several districts in the hills were financed by various bilateral agencies. The Second Forestry Development Project (including community forestry components) has been implemented in 14 Terai districts with World Bank assistance. In total, there are some 60 on-going forestry development projects in Nepal supported by forty different donor entities (see Annex I).

The basic problem of community forestry development projects in Nepal has been the slow rate of handing over forest management responsibility to users in the local communities. The key issues associated with this problem have been: (a) inefficient procedures for identifying and demarcating the forests to be handed over; (b) restrictive ceilings on PF and PPF land that could be transferred to the communities, especially in the hills; (c) a gradual recognition that forests should be transferred not to the panchayats but to sub-panchayat groups

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including traditional local user groups where these exist; (d) the increased realization of the importance of speedy transfer of utilization and management rights to existing forests to these user groups; and, (e) inadequate training, motivation and organization of the MFSC and subordinate Department of Forest staff responsible for project implementation.

Over the last twenty years there has been a gradual degradation of the condition of forest resources over large areas, particularly in the hills, as rural people sought to meet their basic needs for fuel, fodder, shelter and sundry other important goods obtained from the forest. Understocked forest areas are widespread. In 1986, it was estimated that roughly one-third (2.2 million hectares) of the total forest area was either in density class 2 (10-40% crown cover) or should be classified as shrub. Despite the establishment of district level field forestry offices throughout the country, the limited human and financial resources for protection, control and management were not adequate in the face of the continually escalating and undeniable demand for traditional usage rights. Even with almost 6000 employees, the Department of Forests could not hope to control the utilization of some 17 million cubic meters of wood by 3.2 million rural families spread over 12 million hectares. Furthermore, the attempt to do so has polarized the relationship between foresters and the rural people, weakening the collective potential for addressing the problems of forestry development and meeting both local and national forest product needs.

The results of these community forestry development programs have been thoroughly monitored, evaluated and documented. The overall conclusion is that important accomplishments and progress have been achieved and, in a number of instances, targets exceeded. Both internal HMG and external reviewers have, however, identified two major shortcomings: the engagement of the rural people in truly participatory planning and implementation of the activities is still unsatisfactory; and, the handing over of national forest areas has lagged well behind expectations.

HMG and its development agency partners were confronted with the realization that these unacceptable trends - continued forest depletion and destruction and the attendant consequences of unsustainable rural production systems - were gradually undermining the basic fabric upon which long-term objectives of improved agricultural productivity, rural development, and national socio-economic gains must be built. It was in this context that HMG and the donors agreed in a Local Aid Group Meeting on Forestry in 1984 to support preparation of a detailed, long-term Master Plan for the Forestry Sector.

B. The Forestry Master Plan

The Master Plan document begins with an assessment of the current status of forest lands in Nepal. Basic conclusions are that:

- On a national basis, forest land area continues to be substantial (38 percent of total land area) and its distribution across the five Development Regions is fairly equal except for the Mid-Western Development Region, which has considerably more forest land than other regions; and,

- Much of the remaining forest area is degraded: 26.3 percent is severely degraded with less than 40 percent crown cover; 58.6 percent has only 40-70 percent crown cover; and, only 15.1 percent has crown cover over 70 percent.

A simulation model that explores the interrelationships among land use, forest management and exploitation, and the supply and demand of major forest products (fuelwood, fodder and timber) over a 25 year planning horizon was developed. Population and forest accessibility factors were analyzed in relation to existing resources to demonstrate the severity of the current problem with regional and inter-regional variations identified. When projections of future population growth and forest product supply and demand coupled with the projected impact of current forestry programs were added in the equation, the true major dimensions of the future problem become apparent, as graphically illustrated in Figure II.

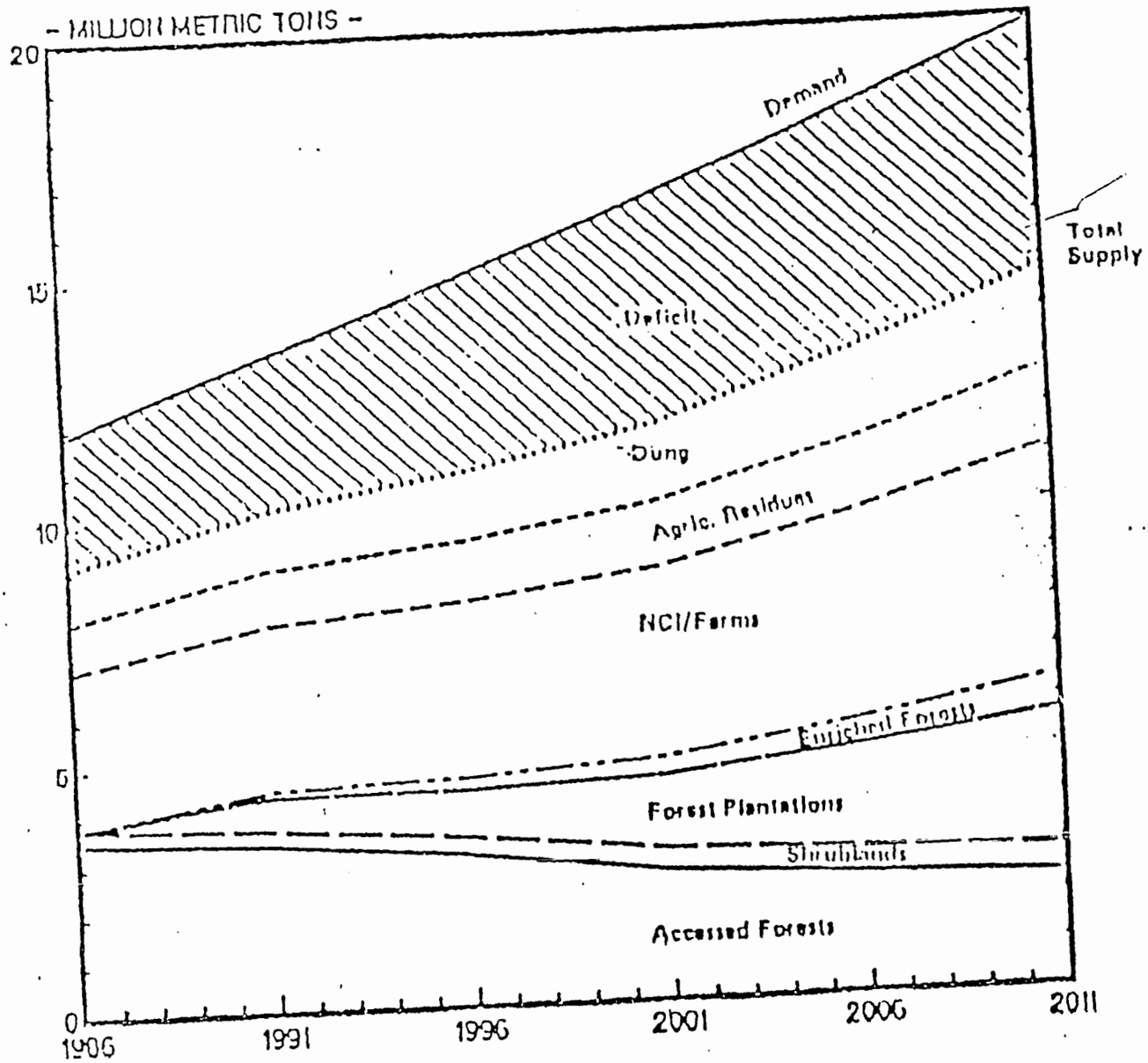
1. Overview of the Master Plan

Supplies of wood, fodder and other forest products will have to be increased by intensive management of large areas of accessible natural forests and by planting trees on open land and uncultivated land adjacent to farms. Over the next twenty-five years, 1.56 million hectares of natural forests will have to be put under active management. This will include enrichment planting of 290,000 hectares of degraded forests. In addition, 250,000 hectares of plantations and 330,000 hectares of private tree farms should be established. Research and development work must be intensified and the fruits of research widely disseminated, for example, to improve survival and growth rates in plantations and to increase yields. At the same time, measures will have to be widely adopted for saving fuelwood in household and industrial use, and for saving raw materials in processing plants. Fuel-efficient stoves should be promoted so that at least 750,000 households are using them by the year 2010.

As forests come under effective management, other positive changes will occur. Forest-based industries, including those that depend on medicinal and aromatic plants and other minor

FIGURE II

Projected Supply/Demand of Household and Industrial Fuelwood under Current Conditions



forest products, will have a steady supply of raw materials. Pressure on national parks and wildlife reserves will ease. Soil and water conservation problems will be reduced.

Other sectors must do their share to bridge the energy gap. Alternative sources of energy and raw materials such as biogas, hydroelectricity, wind and solar power will have to be developed and promoted and effective population control programs pursued.

The implementation strategy is, simply stated, to provide the people (whether communities, individuals owning private forests or industries leasing forest lands to grow their own raw material supplies) with the technology and support required for them to develop and manage forest lands while improving management and development of national forests including wildlife preserves and parks. This implementation strategy was then translated into an Action Plan which consists of twelve development programs designed to provide the inputs required (these are fully described in Annex I). Each development program contains a series of specific five-year physical targets to be achieved coupled with full costing distributed between the government, local participants and foreign donors.

A substantive reworking of forest policy in light of experience and changed circumstances has been a key component of the Master Plan strategy. The cumulative experience of some sixty different forestry sector projects resulted in identifying important policy, legal, organizational, technical and economic constraints and bottlenecks which must be overcome if forestry programs are to continue to flourish and become an effective and efficient national programs. The new policy reorientation includes:

- o rational and commercial exploitation of forest lands (forest management) adopted in lieu of "protectionist" policy;
- o providing village level groups both control and resources where they participate in the "community" forest program and accelerating the process of transfer of management responsibilities;
- o formalizing a concept of forest <u>development</u> through articulation of a policy framework, program priorities, and implementation plan; and,
- o the principle of HMG foresters serving as extension agents rather than policemen.

The Policy Decision Matrix (Figure III) indicates the full scope of the effort to redirect the policy framework.

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FIGURE III

Nepal Forest Policy Decision Matrix

Issue	Proposed Resolutions	Status of Action	Further Actions Required	By whom	When
(A) Forestry Planning and Institutional Development					
1. Weak program plng and monitoring capabilities at the national and local levels.	The HMG will prepare an implementation plan to institute at the national and local levels, the policies and forestry program advocated by the Forestry Master Plan.	Draft Master Plan completed and presented to donors. (May 1988). Final documents due in May with second donor meeting in August, 1989.	1. Final approval of Master Plan. 2. Implementation of of recommendations. 3. Finalize Design of FDP	HMG HMG AID/HMG	May 1989 1989-90 Apr 1989
2.Full adoption by the MFSC of the HMG's Decentralization Act (e.g. user groups).	Appropriate changes in legislation and administrative regulations will be made to bring forestry rules and MFSC adminstrative procedures directly in line with provisions of the Decentralization Act.	Forestry III study completed. Comprehensive Master Plan review of sector laws/rules to be undertaken. (M.P.Program #12)	1. Sign Forestry III 2. Master Plan legal study.	HMG/WB HMG	May 1989 June-July 1989
3.MFSC local personnel hold power of imprisonment without appeal for violations of forestry regulations (e.g. cutting a tree without a permit).	Transfer of judicial responsibility, phased-in over time, from foresters back to the judiciary.	Not included in Master Plan. Included as proposed policy reform condition to ADB Forestry Program Loan.	1. Further study by Master Plan team, ADB et.al. 2. USAID/DFMP case studies in Rapti zone.	HMG USAID	1989-90 1989-90
4.Inappropriate targets for Community Forestry Program.	A demonstrable shift in Community Forestry Program targets from tree planting to local management indices.	Included in Forestry III appraisal.	Final negotiation of Forestry III.	HMG/WB	May 1989

Nepal Forest Policy Decision Matrix (continued)

Issue	Proposed Resolutions	Status of Action	Further Actions Required	By whom	When
5.Poorly defined organizational structure for implementation of the forestry program (e.g. dual policing and extension responsibilities, excessively centralized decision making).	The HMG will develop an organizational structure for the implementation of the national program which includes clear, detailed job descriptions/duties and responsibilities of staff at both local and central levels, as well as local community responsibilities.	1. MFSC reorganization plan prepared and approved by HMG. 2. Implementation of new structure underway.	1. Monitor implementation 2. Propose additional changes if/as required.	HMG/Donors Master Plan Project FDP	1989-95 1989-90 1990-95
6.Private sector has not been sufficiently involved in the GON's forestry program.	The basic recommendations of USAID's forestry private study have been considered and incorporated into the forestry program and the Master Plan and the multi-donor national community forestry program as appropriate.	Master Plan documents in final.	1. Approval and implementation of Master Plan recommendations. 2. Monitor implementation.	HMG HMG/Donors	1989-95 1989-95
(B) Land Management					
1.Slow pace of transfer of Panchayat Forest (PF) and Panchayat Protected (PPF) to local communities.	The HMG promulgates simple, unambiguous procedures for forest survey and mapping, forest management planning and the transfer of management responsibilities from the MFSC to local communities.	1. Recommendations of November 1987 Workshop into Master Plan 2. Draft operational guidelines prepared as condition to Forestry III.	1. Finalization of operational guidelines. 2. Field implementation 3. Monitor implementation	HMG HMG HMG/Donors	June 1989 1989-95 1989-95

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Nepal Forest Policy Decision Matrix (continued)

Issue	Proposed Resolutions	Status of Action	Further Actions Required	By whom	When
	Maps are prepared and provided to MFSC field staff to assist with planning for transfer of the management responsibilities.	1. Indicative maps prepared by WB. 2. FAO consultant developing maps at District level.	Finalize design of FINNIDA support to MFSC Survey & Statistics Division.	HMG/FINNIDA	1989
2.Legal status of forest utilization user groups/committees.	HMG provide clear legal status to local forest user groups/ committees.	SAL-I condition. Legislation changed.	Monitor field implementation.	HMG/WB	1989-90
3.Fixed ceiling on area of PF and PPF that can be handed over.	The HMG removes the current ceilings on the area of panchayat forests and panchayat protected forests that can be handed over to local communities.	Included in Master Plan. (ceilings removed)	Approval and implementation of Master Plan recommendations.	HMG	1989-90
4.Ownership and utilization of the forests by private individuals and entities (i.e. implementation of and/ or changes in leased and Private Forest regulations).	Legal and administrative procedures for the ownership and utilization of trees on privately owned land to be clarified. The HMG will issue leases for public forests to commercial forest products industries. The HMG will actively encourage private sector involvement in input supply and forest product utilization and marketing.	Included in Master Plan.	1.Approval and implementation of Master Plan recommendations. 2. Monitor implementation	HMG HMG/Donors	1989-95 1989-95

Nepal Forest Policy Decision Matrix (continued)

Issue	Proposed Resolutions	Status of Action	Further Actions Required	By whom	When
(C) Forestry Finance and Investment					
1.Need for community retention of revenues from panchayat forests.	The HMG passes legislation and/or adopts regulations allowing the retention of revenues from panchayat protected forests at the local level.	Legislation changed.	Monitor field implementation.	HMG/Donors	1989-95
2.Need for improved program budgeting and project monitoring procedures.	The MFSC implements program budgeting and project monitoring procedures at central and regional/district levels as developed by Ministry of Finance.	Central systems at MOF operational System to be installed in MFSC by end of 1989. MFSC by end of year.	1. Finalization of FDP design. 2. Implementation of FDP component I.	USAID/ HMG HMG/USAID	May 1989 1990-95
3.Need for more expeditious release of budgets to insure momentum of field programs is maintained through the monsoon planting season.	The Controller General revises budget administrative procedures to permit expeditious release of at least 25 percent of new Fiscal Year budgets in July/August.	Forestry III condition.	1. Final negotiation of Forestry III. 2. Field implementation. 3. Monitor implementation.	HMG/WB HMG HMG/Donors	May 1989 1989 1989-91

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2. The Roles of Government, Donors and Private Sector in Implementing the Master Plan

The Master Plan involves two basic changes. First, where before there were some sixty different forestry projects, each self-contained, supported by some forty different donor entities, this will no longer be the case in Nepal. All donor projects will be brought under one of the twelve development programs outlined in the Master Plan (see Annex I). This process begins with the second phase World Bank funded Second Hill Community Forestry Project which, along with parallel UNDP/FAO funding of technical assistance and DANIDA funding of training, will start in early 1989. Subsequently, all project "renewals" will move under the Master Plan program framework and, in several cases, adjustments to on-going projects (e.g., the ADB funded Hill Forest Development Project and the extension of USAID's Nepal Coppice Reforestation Project) will be made to conform with the Master Plan. New projects, such as the Forestry Development Project, will be designed in full conformity with Master Plan guidelines.

Second, unlike many instances where the concept of Master Planning has been used, in Nepal there has been a focus on the exercise as a dynamic process. Thus, elements of the Master Plan (e.g., institutional restructuring of the Ministry of Forests & Soil Conservation) were implemented before the full set of documents was formally approved by HMG, and donors proceeded to begin developing projects in support of Master Plan implementation as soon as the broad outlines of the programs were clear. This was due, in large measure, to a realization by both HMG and the major donors that a program rather than project approach to development was needed in virtually all sectors. Implementation of the Master Plan, therefore, did not begin from ground zero either as of May 1988 when HMG formally presented the draft documents to donors or as of May 1989 when these documents were formally approved. In addition to the institutional restructuring noted above, several legal, regulatory and administrative recommendations of the Master Plan have already been promulgated, such as new regulations with respect to utilization of trees on private forest land, additional financial incentives for villagers to participate in the community forestry program and, an elaboration of the lease forest rules and regulations.

Donor coordination in the forestry sector has been exemplary over the past several years. While much of this coordination has occurred informally, a more formal structure has been set up through regular donor/HMG forestry luncheons organized by UNDP. Plans for a more formal, periodic HMG/donor forestry group were discussed at the Master Plan review meeting in May 1988. HMG is expected to present a proposal for the activation of such a group at the Master Plan review meeting scheduled for August 1989.

Total cost of implementing the Master Plan is estimated at U.S. dollars $1.7 billion over the twenty-two year period with the HMG assuming 34.4 percent of costs, donors 30.2 percent and the private sector 35.4 percent.

3. Results Anticipated

Some of the economic, socio-economic, and environmental impacts projected to result from the implementation of the Master Plan programs are as follows:

- Fuelwood production will increase from 7.3 million metric tonnes (mt) in 1985/86 to 15.0 million mt by the year 2010. By comparison, assuming that the current trends continue, fuelwood production would be only 11.6 million mt in 2010. The difference in production by the year 2010 is worth almost 7.5 billion Nepal rupees at current prices, assuming that fuelwood deficits were met by kerosene imports, or worth approximately 2.5 billion rupees in terms of foregone maize production of 789,000 mt, assuming that dung and agricultural residues were used as fuelwood substitutes rather than as fertilizer;

- Fodder production from forest lands and tree farms would increase from 14.6 million mt of fresh matter in 1985/86 to 24.3 million mt in 2010, compared to 17.5 million mt under current conditions. The difference in fodder production could support an additional 2.7 million head of buffalo which in turn could produce 2.1 million mt of milk worth over 7.2 million rupees and 2.67 mt of dung. If used as fertilizer, the estimated additional dung production could raise maize production by 316,000 mt which would be worth almost a billion rupees at current prices;

- Timber production would increase from 0.88 million cum (cubic meters) in 1985-86 to 3.28 million cum, compared to 2.11 million cum under current conditions, by the year 2010. At current prices, the difference in timber production is worth 3.27 million rupees;

- The above estimated increases in fuelwood, fodder and timber by 2010 means an increase in incomes of over 14 billion rupees at current prices;

- Employment generation under the Master Plan is estimated to be equivalent to 2.2 million man-years of full-time jobs in 2010 as opposed to 1.4 million man-years, assuming that the current trends continue;

- An additional 1.82 million hectares of land or 0.09 hectares per capita will be transferred from the government to the people by 2010;

- A better quality of life for rural people will result from the increased availability of fuelwood for cooking and heating, more feed for livestock, which in turn will provide more milk, meat, hides as well as dung for food production, more timber for shelter, increased security from natural disasters because of a better soil cover and the building of more erosion control structures, and better amenities from the protected areas; and,

- the needs of the people, the production systems and the environment would be brought into a sustainable balance.

In terms of economic viability, all forest establishment and management schemes proposed are economically viable. An economic internal rate of return has been estimated for those Master Plan programs which deal with the production of fuelwood, fodder and timber. Supportive programs such as human resource development, resource information system development, management planning, research and development, and forestry extension were all included in the costing. All investment and recurrent costs, excluding duties and taxes but including physical contingencies, were taken into consideration. The economic internal rate of return for the Master Plan was estimated at 35.5%.

Are these results achievable? A long-time observer of the forestry scene in Nepal, Professor David Griffin of the Australian National University, wrote a book last year looking in detail at Australian aid to Nepalese forestry over the last fifteen years. In the concluding chapter of the book, he offers the following assessment:

"It is as easy to be gloomy about the future of Nepal as it is to be ecstatic about its beauty, and the pessimists have many grounds for their views...I believe that there is room for hope, and I take encouragement from the fourth part of volume one of Banko Janakari ('A Journal of Forest Information for Nepal') published in late 1987 and devoted to reporting the (HMG/FAO/NAFP/SDC/USAID) workshop on community forestry management. The workshop provided evidence of a remarkable consensus of views as to the proper attributes of management. Nepal has excellent legislation relevant to forestry in the Panchayat Forest and Panchayat Protected Forest Rules, as amended, and in the Decentralization Act. Now it seems that the bare legislative bones can become the framework for effective action by all parties involved in forestry. That this situation has arisen in a little more than a dozen years is astounding." (Griffin, 1988. Finale)

C. Project Description

1. Goal and Purpose

HMG is embarked on an ambitious program to simultaneously increase the rate of growth of the economy, resolve problems in

both fiscal and external sectors, and fulfill the basic needs of its populace by the year 2000. The structural adjustment program adopted in 1986 emphasizes the need to bring into balance imports and exports as well as fiscal resources with expenditures. The basic needs program focuses on providing minimum levels of food, clothing, housing, education, health and security. In support of these objectives, USAID's strategic objectives as articulated in the CDSS for FYs 1988-1992 are to: increase economic growth primarily through improved agriculture production; better manage productive resources; and, stimulate private sector involvement in the economy.

The goal of the Forestry Development Project is to increase the productivity and sustainability of forestry production systems in Nepal through the promulgation of better policies and improved public and private forest management. The purpose is to strengthen the capacity of the Ministry of Forests and Soil Conservation to implement the Master Plan for the forestry sector and increase nationwide usage of improved stove models.

The relationship between this project's objectives and those of the HMG is direct and important. This project seeks to significantly contribute to achieving the Master Plan objectives of meeting the requirements for (a) fuelwood, timber, fodder and other forest products and, (b) food and water by keeping a steady flow of nutrients and water from forests to farms as well as maintaining a safe and wholesome natural environment. More specifically, this project will significantly increase HMG's capability to implement the policies set forth in the Master Plan, ensure its implementation through expansion and upgrading of the planning capabilities at various levels, support institutionalization of program budgeting capabilities in the forestry sector, assist in the creation of a computerized planning/program system and contribute directly to reduction of demand for fuelwood through development and dissemination of improved stoves and increased usage of kerosene as a substitute for fuelwood during the short-term crisis situation.

Because the basic implementing vehicle of the Master Plan is the transfer of forest management responsibilities from the government to the people, implementation of this project directly contributes towards enhancing the role of the private sector in the economy. The impact of project implementation will be increased incomes for those involved in community and private forests both through crops interplanted for the first several years and harvest of forest products. Further, implementation of the leasehold forest program will allow private forest products industries reliable access to raw materials, currently the crippling factor to full capacity operations let alone expansion. Such enhanced production will act to increase exports, generate jobs with concomitant effects on incomes and lead to efficient

substitution for imports. Increased incomes will allow the people to fulfill their basic needs in a more constructive manner than by means of government "welfare programs". In terms of relationship to fiscal problems, there will be a shifting from the national budget to local user groups costs of developing and managing forests. Greater production by forest products industries will broaden the tax base and generate resources for the budget.

The Forestry Development Project is expected to develop strong links with several other projects in the USAID portfolio, particularly the Rapti Development Project (367-0155), the Institute of Forestry Project (367-0154), and the USAID/Winrock Policy Analysis in Agriculture and Related Resource Management Project. Ongoing field programs in the five districts of the Rapti Zone will provide an important source of feedback to monitor progress at the district, panchayat, and user group levels of institutional development and policy reform implementation at the national level. In addition, work in Rapti on (a) integrated District-level planning of agriculture, livestock and forestry programs, (b) sub-District level planning, (c) decentralized finance and management, including specific studies on local level forest management carried out in conjunction with the AID centrally funded Decentralization - Finance & Management Project, (d) detailed project monitoring at the local level and, (e) work on improved stoves carried out under the aegis of ADB/N's Private Enterprise Units are all expected to provide important inputs into implementation of this project.

Research on both forestry policy & planning and improved stoves carried out at the Institute of Forestry is also expected to provide important input into project implementation. Forest policy analysis and forest product marketing research carried out under the new Winrock grant, funded under the PVO Co-Financing II Project (367-0159), will act to stimulate and help to define and direct the policy debate in forestry over the next several years. In addition, USAID activities supporting implementation of Nepal's National Conservation Strategy (two CARE community-based natural resources management pilot projects and the HMG/Woodlands Task Force on the Makalu-Barun Sagarmatha National Park Extension) should provide useful input into implementation of the project. Somewhat more indirectly, work on local-level natural resource management, resource mobilization and the formation of user groups in both HMG and farmer-managed irrigation systems as well as work on irrigation user-group legislation supported under the Irrigation Management Project (367-0153) is expected to have useful lessons for parallel work in forestry.

Close links will also need to be developed with a range of other donor funded projects and program support activities. The close links that already exist with the World Bank, UNDP/FAO, ODA, SDC and the Australians will need to be maintained. Links with ADB and FINNIDA will need to be strengthened as they come to

play a more prominent role in sector programs. This should be facilitated by the assignment of a FINNIDA Forestry Program Advisor to Kathmandu and the opening of an ADB Resident Representative's Office in the near future. On the program front, it is expected that several of the research programs being undertaken by the International Centre for Integrated Mountain Development (ICIMOD) will be relevant, particularly those related to mountain farming systems/long-term strategies for mountain agriculture (forestry/farming linkages, community resource management systems, and marketing systems for mountain agriculture), mountain institutional development/district level energy planning and management, and the role of women in mountain farming and forest management.

On the project front, particularly close working relationships will need to be developed with FINNIDA-supported work with the MFSC Monitoring & Evaluation Division and the WB/UNDP/FAO/DANIDA supported Hill and Terai Community Forestry Projects.

2. Component I: Forestry Policy and Planning

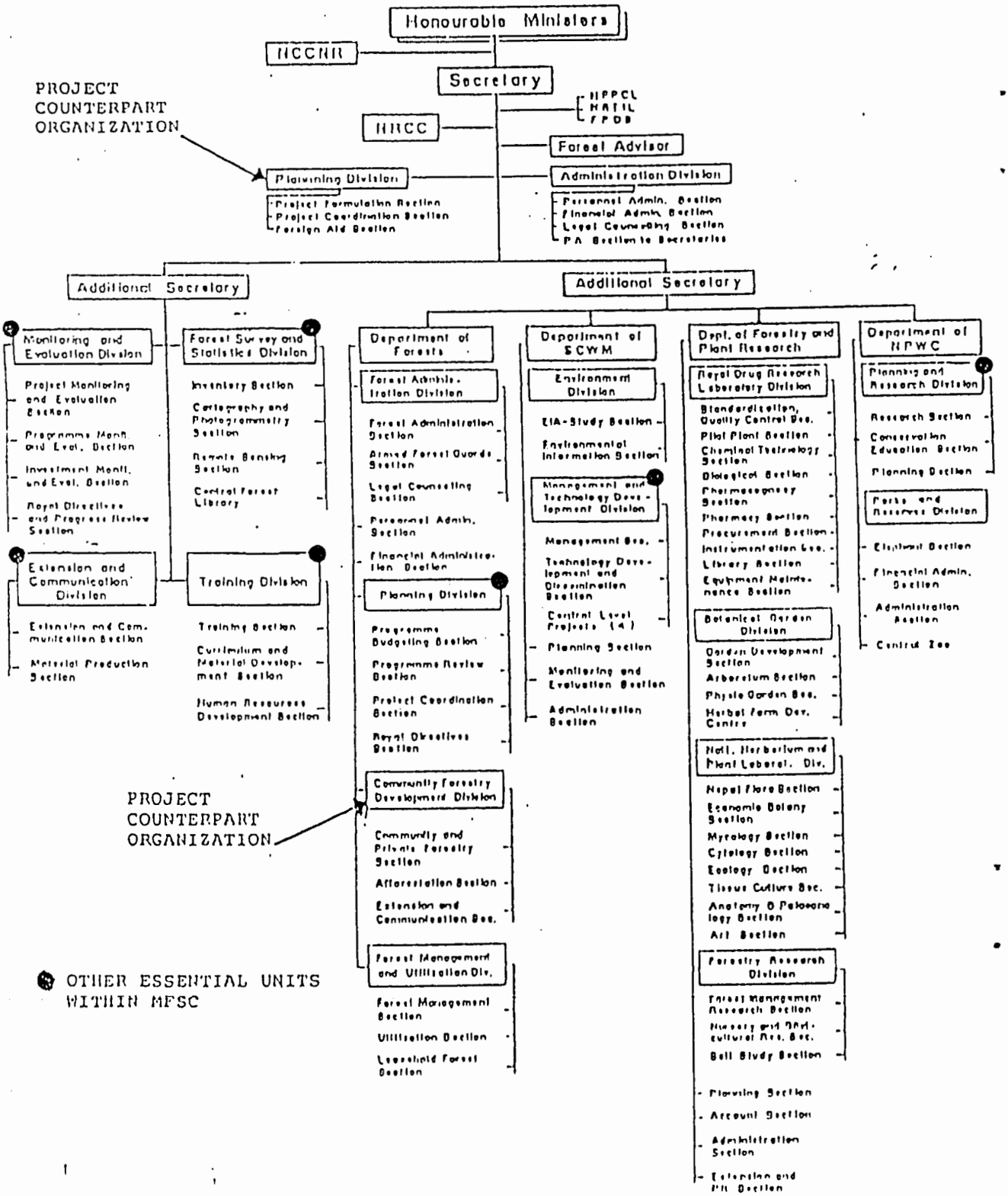
a. Background

Responsibility for forestry policy formulation and sector planning within the MFSC is centered in the Planning Division, serving and reporting directly to the Secretary. This division in turn interacts with departmental level planning units or cells in each of the four departments (Forestry; Soil Conservation and Watershed Management; National Parks and Wildlife Conservation; and, Forestry and Plant Research) as well as with the four MFSC support Divisions (Monitoring & Evaluation; Forest Survey & Statistics; Extension & Communication; and, Training) as can be seen in Figure IV. A fifth department, Resettlement, was transferred to the jurisdiction of another ministry (Housing and Physical Planning).

Planning capability at both the Ministry and Department levels needs strengthening. In the past, plans and budgets were formulated at the center and subsequently disaggregated, often on a simple mathematical basis, as targets and inputs for District and sub-District level units.

The Planning Division, established only 6 years ago, presently has a permanent (i.e., established posts) staff of 4, consisting of two gazetted professional foresters and two professional officers of the Nepal Administrative Service, and 3 foresters deputed to the Division. Under the recently approved revised organizational structure, the Division is to be composed of three sections: project formulation section; project coordination section; and, foreign aid section. The Planning Division has not had, until recently, an institutional

FIGURE IV: MOFC Revised organization



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description of duties and responsibilities, recognized staffing plan, or job descriptions for the officers working there. Its overall role has been established and recognized in the form of a list of divisional functions elaborated at the time it was set up. These functions include:

- Assisting the National Planning Commission (NPC) in the preparation of periodic plans;
- Formulating annual program and budget proposals for submission to the Ministry of Finance and NPC;
- Participating with donor missions during project identification, appraisal and finalizing of agreements for assistance;
- Project administration;
- Preparation of monthly accomplishment reports of the ministry;
- Compilation of expenditure and status reports of program accomplishment for periodic reviews;
- Preparing reports, briefs and other information papers required by Cabinet Secretariat, National Panchayat, National Planning Commission, etc.;
- Participating in tripartite reviews, project performance reviews and other meetings;
- Providing guidelines and budget limits to the departments for the preparation of annual district programs and budgets;
- Participating in program budgeting and project monitoring; and,
- Other activities as directed by higher authorities.

A number of important decisions have already been taken and more are expected (now that formal HMG approval of the Master Plan has been given) which will have significant impact on forestry sector planning in Nepal. Early steps in implementation of the Master Plan include reviewing existing projects to adjust them to the long-term objectives and program framework identified in the Plan. Subsequently, it is expected that the MFSC will rigorously scrutinize new project proposals to ensure their fit within the Master Plan program framework. As the Master Plan has been prepared primarily on the basis of secondary data sources, some of which need considerable improvement as well as periodic updating, further development of the Plan, in a dynamic fashion, is

foreseen. This updating will be closely linked to the five-year national planning process.

The process of institutional strengthening under the Master Plan has already been started. Efforts have been focussed on the need for vertical planning linkages from the field to the central level in order to improve the planning system and respond to HMG's new mandate on decentralization. Accordingly, under the aegis of the Master Plan Project, a cadre of 22 MFSC staff from ministerial and departmental levels have been assembled and a multi-tiered training program launched. The program includes a month-long local workshop, a structured course and study tour overseas, development of a district level forestry planning manual, and a final implementation planning workshop. This training effort will be continued as the Master Plan calls for continued strengthening of the institutional capability for planning at all levels throughout the MFSC. As such, this training exercise will serve as a foundation for follow-on work to be undertaken through this component of the Project.

The Decentralization Act (1982), and the subsequent Decentralization Rules (1984), promote development planning and action at the grass roots level in all sectors. The intention is to try to match local level needs and aspirations against available national resources, thereby better engaging local communities and their own resources in the development process. Under these provisions, local user groups will be formed to take responsibility for the protection, utilization and management of forest areas and to receive technical assistance from the Forest Department. As user groups begin to exercise these rights, community and private forestry activities could increase substantially and, concomitantly, the need for greater Forest Department extension capability. Furthermore, the process of decentralization recognizes that local development plans and inputs should be tailored to the location and group-specific needs, that local development often requires an integrated approach, and that, as experience has shown, the centralized approach (top-down) of the technical ministries is not well suited to these purposes. While it is clear that the organizational details for enacting this mandate need to be further elaborated, it is evident that the responsibility for facilitating and guiding the planning (and implementation) function will fall more heavily on the territorial staff of the Forest Department, particularly the District Forest Officer (DFO). Most DFOs do not yet have sufficient training in planning and are still unclear about this role. An effective, decentralized planning system within the Ministry and its Departments will have to be devised and put into operation, guidance issued to the field and the local level staff trained in its operation. Hence, here again, given the impetus to decentralization, greater coordination, planning, and programming skills throughout the MFSC will be required. It is clear that developing such a bottom-up approach will take time, require

patient and well-informed guidance and support from ministry staff at all levels, and be subject to modification as experience is gained in its implementation. The mandate to do this is strong and undeniable, and is illustrated most recently by the MFSC developed paper on Operational Procedures for Implementing the Community Forestry Program (MFSC, April 1989) submitted to the World Bank as a precondition for final negotiations of the Second Community Forestry Project (Hills).

The Ministry of Finance (MOF) with support from UNDP is currently undertaking a project to strengthen and systematize program budgeting and project monitoring procedures. This effort is aimed at: developing analytical capability within the MOF and key line ministries (including MFSC) to screen and prioritize projects within selected parameters; and, monitoring project financial information and performance problems. The financial monitoring component is intended to help solve the problem of timely budget releases and lagging reports of project expenditures, thereby putting the resources in the hands of field staff as and when they are needed. The system, supported by computer hardware and software, will ultimately link the MOF with other line ministries, the Prime Minister's Office, the Palace Secretariat, the Controller General's Office and the District Treasury Offices and enable users to: monitor status of project funding actions; detect delays, their causes and responsibilities, and actions necessary; generate reports on an on-line basis; and, provide for on-line interactive management advice and instructions to flow through the system. This system is currently being tested by the MOF with four technical ministries and the District Treasury office in Kathmandu.

The MFSC is one of the four technical ministries included under the pilot phase of the program budgeting project. Current plans call for installing the system in the MFSC in the first half of 1989. All MFSC projects are expected to be in the data base by that time. The UNDP/MOF project will furnish the basic computer (IBM AT with 40 megabyte capacity, monitor, printer and on-line communication capability through a modem) and provide 4-6 weeks of on-the-job training in systems operations and applications. Specific adaptations in line with the applications needs of the MFSC are also foreseen. This system will be installed in the Planning Division which will have the mandate, including both responsibility and accountability, from the MOF.

b. Constraints

The Planning Division strives to carry out its mandate but due to its wide responsibilities, heavy workload, limited staff, and inadequate training in some areas, it is often forced to work on many disparate tasks simultaneously to satisfy urgent Ministry needs. A great deal of data and information is collected for a wide variety of purposes. However, efficient data

management systems and technologies are missing and, thus, the information is often piecemeal, of varying quality and difficult to analyze. A significant number of additional responsibilities falling within the purview of a Planning Division, or shared by them, are not systematically addressed. Currently weak but pertinent functions (responsibilities) include policy studies, institutional development issues (i.e., further refinement of the MFSC organizational structure), economic and market research, and project/program planning and analysis. These constraints may be summarized as follows.

Policy Analysis and Strategy Formulation: Issues of sector policy and strategy are dealt with at the highest levels in the MFSC, the National Planning Commission, the Ministry of Finance, and the Cabinet. The present sector policy environment may fairly be characterized as progressive given its strong thrust towards popular participation in community forestry. However, there is currently little staff capability to carry out effective economic assessments of the sector investment strategy or cost/benefit and financial analysis of alternative forest land-use options. In fact, there is currently only one Nepali professional forester with an advanced degree in forest economics and even he is not directly attached to the Planning Division (presently on deputation to the Master Plan project).

Program Formulation: Program formulation is also a Ministry level function, carried out by the Planning Division in close collaboration with the Departments for the various subsectors (Forestry, Soil Conservation and Watershed Management, National Parks and Wildlife, and Medicinal Plants). These efforts have focussed on distributing annual budget ceilings on the basis of an overall five-year plan. The approach has been too top-down and often unresponsive to priority needs and opportunities unless these could be addressed through external resources.

Program Budgeting: Nepali foresters readily admit that program budgeting has been the Achilles heel of even well-endowed donor financed projects. The Planning Division is faced with trying to accelerate release of funds bogged down between the myriad of donor funding practices and an overly bureaucratic and often unresponsive national budgeting process. In the past, the only financial control has been refusal to release funds until antiquated accounting procedures have been completed. Failure to provide timely releases often handicaps implementation, especially in sector activities which are closely tied to the biological calendar, and, as a result, expenditures lag and the cycle repeats itself.

Project Planning and Analysis: Currently, the overwhelming bulk of project identification, design and analysis is carried out by teams of expatriate consultants fielded by the concerned donor agency. Limited training in systematic analysis

and project planning and design is an important constraint to more active involvement by HMG professionals in this important process. This leads to an overly projectized approach to development, frequently dependent on the well intentioned but misinformed interests of the donors, thereby further undermining the sector planning process. With a program approach to forestry sector projects now clearly outlined by the Master Plan, it is imperative that project planning and analysis skills be strengthened to ensure both active (instead of reactive) MFSC participation in design as well as the careful integration of discrete projects into the broader program framework.

Project Monitoring & Evaluation: Project monitoring and evaluation are now the responsibility of the newly formed Monitoring and Evaluation Division, to be supported by FINNIDA. The work of this Division is of great importance to the Planning Division in effectively carrying out its mandate, particularly in the areas of program budgeting and project formulation. A variety of project monitoring and evaluation systems have been developed in the forestry sector. In many cases, these are project specific systems that are designed by funding agencies more for their own purposes (e.g., reporting project progress and impact to "home offices") than for input into HMG planning and project formulation. The Planning Division is unable to easily use this information and synthesize it in such a way as to guide future planning and decision-making. Projects have produced valuable reports and documentation, but the achievements of these projects have not been monitored or evaluated on a global or ongoing basis so that lessons learned can be readily incorporated into future programs. An important exception is the monitoring and evaluation system developed by the HMG/UNDP/FAO Hill Community Forestry Development Project which can serve, with appropriate modifications, as a basis for developing Ministry-wide monitoring and evaluation capability.

Planning & Management Technologies: An additional constraint contributing to each of the items noted above has been technological in nature. Current systems of information management and paper flow within MFSC are antiquated and reliable information upon which to base planning and management decisions is often not readily available. The recent successful introduction of computer technologies in Nepal opens important new avenues for strengthened planning and management within the MFSC.

c. Activities

The activities of this component of the Project will be centered in the MFSC Planning Division and carried out by the staff of the Division with close collaboration and assistance from the long-term technical assistance personnel (Senior Planning Advisor and Forest Economist) supported by short-term expatriate specialist consultants and local consultants. The Chief of the

Planning Division and the Senior Planning Advisor, who will act as Chief of Party for the technical assistance team, will have the responsibility for directing these activities.

As this project is part of multi-donor support for the Master Plan programs, close liaison and cooperation will be maintained with the other donors (World Bank, Asian Development Bank, UNDP/FAO, FINNIDA, etc.) to ensure synchronization of effort and avoid unnecessary duplication. Particular care will need to be given to developing effective working relationships with those involved in supporting institutional development at the Ministry level (i.e., FINNIDA). It is proposed that routine contact among key personnel (both national and expatriate) be regularized through a series of bi-monthly meetings for which the Planning Division will serve in a secretariat function. Reports from these meetings will be circulated among all interested parties.

The activities of this component will be implemented in a phased approach (see Section IV A) geared to developing the overall planning function in accordance with the availability of personnel, technological and operational resources and capabilities as these evolve. Given the fact that these activities are predominantly institution-building in nature, institutional bench marks will be identified as part of the detailed implementation planning in order to avoid overly subjective evaluations of project achievement. Closely monitoring the institutional achievements, both internally as well as by HMG/USAID, will legitimize the degree of flexibility which is essential for effective implementation of this project component. In effect, the Planning Division, with project assistance, and HMG/USAID oversight, will plan its own destiny and implement and monitor the same as a first concerted exercise in what will be its future responsibility for addressing institutional development issues within the MFSC.

The following is an indicative list of the activities to be undertaken in the component. The list is subject to further elaboration and improvement as well as modification in light of accomplishments of the ADB/FINNIDA supported extension of the Master Plan project which will run until June, 1990. The list is organized along the lines of the five major output streams outlined below. Unless otherwise indicated, the work will be carried out by the project team; in the case of this component, this means the Planning Division staff and their long-term expatriate advisors.

o <u>Strengthening of the Planning Division and the Planning System:</u>

- Carry out a study of the ministry-level planning function, its needs in light of Master Plan directives, on-going reorganization of territorial responsibilities concerning community, private, leasehold and national forest

programs, and the implications of the decentralization policy of HMG. Prepare a report making recommendations for a phased approach, including institutional benchmarks, for strengthening the Planning Division and the planning system as a whole. Utilize this report as the basis for preparing a detailed implementation plan for years one and two and an indicative work plan for subsequent years. This study will be updated bi-annually taking into account achievements and needs (TASK A-1). Note: These task numbers are linked directly to the implementation schedule presented in Section IV A as well as material in Section II D (technical assistance input).

- Formulate the terms of reference, guide and provide the services of a task force, comprising local consultants and HMG officials (9 person/months), to review job descriptions for each level of the Ministry involved in planning. This task force will also prepare guidelines to systematize working procedures and improve the flow and accuracy of planning data and information within the Ministry (A-2).

- Institute a training strategy in the areas of policy and planning, including masters degree fellowships, in-service training and short-courses for ministry, division and departmental staff. The latter will also take account of and, as appropriate, provide inputs and support for closely related UNDP, DANIDA, and FINNIDA supported training efforts at the regional, district and sub-District levels (A-3).

- Prepare and implement a procurement plan to increase the technological and operational capabilities for planning at the Division and Departmental levels (within the general framework set out in the overall project procurement plan). Procurement will include micro-computer based automated data management equipment (including Devanagari script facility, if feasible), office equipment, typewriters and word-processing software, calculators, photocopying facilities, files and recordkeeping equipment, telephone exchange facilities and vehicles (A-4).

o <u>Institutionalization of Planning Functions:</u>

- Prepare briefing papers for various staff levels and units, in English or Nepali; to disseminate the findings and recommendations of the Master Plan. Arrange and conduct briefing/training sessions as necessary to obtain field informed feedback on the Master Plan from throughout MFSC (B-1).

- Review the data-base on which the Master Plan has been elaborated and implement a program to update and improve it (B-2).

- Prepare an annual Unit Work Plan to ensure the timely and increasingly effective implementation of the functions presently assigned to the Planning Division (B-3).

- Prepare terms of reference, guide, and provide the services of a task force which includes MFSC staff and local consultants, with the possible assistance of a specialist expatriate consultant, to review the program budgeting systems currently being employed for the forestry sector. On the basis of this review, the task force will make detailed recommendations on an overall program budgeting system for the MFSC. The system will be well integrated and will generate data and information that can be readily utilized at various levels of scrutiny, from the field to the Department and Ministry levels (B-4).

- Implement the program budgeting capability and facilities provided to MFSC through the MOF/UNDP project. Review the applications/adaptations potential for this system and initiate procedures for incorporating them (B-5).

o <u>Additional Analytical Capability</u>:

- In consultation with the highest levels of the MFSC and, in light of the recommendations of the Master Plan, the Four Special Study Reports, the Community Forestry Management Workshop and, recent MFSC achievements in policy reform, prepare an annual working paper identifying the policy agenda for consideration in direct support of enhanced forestry programs. A preliminary listing of specific issues was outlined in Figure III. Additional areas for consideration include: the forestry/range management interface; the enhanced contribution/role of women in forestry development; recurrent costs and sustainability of forestry programs; the effective promotion of leasehold and private forestry; and, a review of the judicial and policing powers of forestry field staff. Convene a two-day high level meeting, with appropriate field staff representation, to review the agenda, assign priority to the study and resolution of policy issues, and make recommendations leading to such solutions (C-1).

- Undertake, as directed above, a series of policy analysis studies, drawing widely on the resources of MFSC staff and local consultants, as required, with a view towards analyzing the effectiveness of revised forest policy and support instruments (legislation, rules, regulations and operational guidance) for HMG approval (C-2).

- Develop a working paper on the tools and procedures for program formulation with a view to improving and refining the program recommendations made in the Master Plan. This paper would also identify the needs and course of action for ensuring the integration, and reformulation, if necessary, of all on-going projects within the framework of the formulation of the eighth five-year plan (C-3).

- With the assistance of a specialized expatriate consultant in forestry organizations, and local consultants, monitor implementation of the institutional development recommendations given in the Master Plan and prepare a paper on the analysis of institutional development options for the Ministry (C-4).

- Convene, under the leadership of the MFSC Training Division, a working group of MFSC and Nepal Administrative Service staff and local consultants on human resources development strategy for the Ministry and assess progress begun under the Master Plan. The objectives of the group will be to review the staffing pattern, chain of command, job descriptions and qualifications, and medium to long-term staffing needs in light of the changes in MFSC structure and operations. This task would be carried out in close consultation with all relevant parties of MFSC and with FINNIDA, DANIDA and other donors active in supporting human resource development programs (C-5).

- Form and operate an economic research working group under the guidance of the Planning Division comprised of MFSC staff (Planning Division and others) and local consultants, drawing on occasional specialized expatriate consultants and working in close collaboration with other HMG/Donor projects to give attention to priority special studies such as cost/benefit analysis, income and employment generation in the sector, and forest products processing and marketing (C-6).

o <u>Project Planning, Analysis and Evaluation</u>:

- Review experience in the sector and other closely related sectors (agriculture, water resources) in order to develop a MFSC project planning, analysis and design methodology as well as useful planning tools (standard formats, design check lists, approval matrix, etc) to facilitate and enhance new project design efforts (D-1).

- Develop a series of short priority project idea/profiles representing some of the present gaps in implementation capability for the various program projections made in the Master Plan. These profiles will serve as a tool for guiding future donor contributions to sector development in Nepal (D-2).

- Planning Division staff will routinely participate in all major project identification and design efforts to ensure their fit with program priorities. Furthermore, the Division will scrutinize small project design documents or the forestry components documentation for planned integrated rural development projects (D-3).

- The Planning Division will develop a yearly schedule to track upcoming project evaluations, furnish ministry-level staff (supplemented if necessary by local consultants) to participate in major project evaluations as feasible and serve as the MFSC clearing house for the review of all project evaluation reports (D-4).

o Planning/Programming Information System:

- Carry out, with the assistance of local consultants, an information needs assessment study directly related to the planning system at all levels within the MFSC. The study will describe and analyze the present planning related information management system and its problems and constraints and develop a preliminary matrix or checklist focussing on the needs of the various system users for accurate, timely and relevant information (E-1).

- Establish an on-going dialogue with MFSC and Departmental planning staff and senior decision-makers to review the above study, further improve the understanding of information management needs and opportunities, and ensure that the users will be thoroughly familiar with the advantages and disadvantages as well as the costs and benefits of moving to a more sophisticated planning/programming information system. Convene a special workshop to get this dialogue underway (E-2).

- Carry out the implementation of the planning/programming information system components which are to be the responsibility of the Planning Division (i.e., program budgeting) including system establishment, acquisition and installation of the computer equipment, development of system management policies and procedures, the operator/user training program, and an equipment maintenance regime (E-3).

d. Results

This component of the Project will increase and improve the capability of the Planning Division of the MFSC. It will do so by focussing on the adjustments and strengthening of the planning system as a whole, giving priority to the changes resulting from the shift of forestry planning and implementation responsibilities to the territorial staff (MFSC Departments) and the implications of the Decentralization Act. This component will build on the efforts to strengthen the planning function begun under the Master Plan project in which planning needs and procedures were analyzed at the ministry, departmental, regional and district levels.

This component will also assist the Planning Division to concentrate its limited resources on the highest priority tasks. These include: continuing, elaborating and perfecting the sector

planning model developed by the Master Plan; improving the quality of the data and information being collected and the procedures for doing so; continuing to build the analytical capability and technologies for utilizing that data in support of decision-making; and, making the planning function more responsive to the needs of resource managers at the national, regional, district and sub-District levels. Substantial human resources development and training will be fundamental to rapid implementation of decentralized planning procedures. Fellowships and on-the-job training will be vital for central division staff who in turn will have to provide in-service training for field staff. Project and division staff will also provide inputs to and act as resource personnel under the coordinated training scheme to be undertaken by the new MFSC Training Division.

Expected achievements and outputs will include:

o The strengthening of the MFSC Planning Division and the sector planning system with special emphasis on the priority programs outlined in the Master Plan. Increased numbers of capable staff will, over the life of the project, be available to strengthen the various units within the Planning Division (including the eventual addition of a policy development and macro-planning unit);

o Competency in and institutionalization of current initiatives in overall sector planning and program budgeting;

o Development of additional analytical capability within the Planning Division, particularly for policy analysis, program formulation, and special studies related to institutional development issues, and program integration with other ministries for area development efforts. Special attention will also be directed to skills development in economics and market research, income and employment impacts of forestry programs, and forest products processing; opportunities;

o Strengthened project planning, analysis and evaluation capability within the MFSC resulting in increased HMG input into project identification and design and donor coordination; and,

o Development of an effective program budgeting system with appropriate data processing technologies and equipment, providing ready access and reliable transfer of management information within the Ministry, between the Planning Division and the Departments, thereby facilitating analysis, decision-making and future planning.

3. Component II: Improved Stove Program Component

a. Background

In a significant number of rural communities throughout the country, the fuelwood supply-demand equation has reached a deficit situation, causing hardship to the people and exacerbating the land-use degradation problem. In towns and villages as well, where fuelwood is purchased, slowly rising prices are exerting an economic hardship. Given the present trends in sector development, it would appear that the supply and demand situation will likely deteriorate further before the effectiveness of the current forestry programs can be brought to bear. Accordingly, many people would benefit from a fuelwood conservation or substitution program. Owing to the predominance of wood-burning stoves throughout Nepal, the Master Plan has recommended a continuation of the improved stove program. USAID/Nepal has chosen to respond to that recommendation because of an abiding interest in and capability of the United States, and modest past USAID successes with improved cookstove programs. This component has been based on a USAID study of past and present cookstove programs in Nepal (Wood, 1987).

Current estimates of biomass fuel consumption in Nepal are rough, since no reliable survey has ever been conducted. In urban areas, an often quoted figure of fuelwood use is one cubic meter per person per year, which by formula converts to a more precise-sounding figure of 248 kg. In rural regions, fuelwood consumption may be more than twice this amount due to the need for space heating and other factors.

Patterns of energy use are changing rapidly in urban areas. As fuelwood prices rise, there is a growing trend of switching to kerosene and even to electric hotplates. In the poorer, periurban regions, more people are using straw and rice husks, either alone or combined with wood. Animal dung is used seasonally in the Terai, especially when cooking over smokey fires can be done out-of-doors. While most of the energy is used in the preparation of human food, Joshee (1984) estimates that as much as 16 percent may be used to cook feed for livestock.

There is no question that in Nepal, an appropriately designed cookstove in good condition, when properly used, can save a significant amount of biomass fuel compared to most traditional stoves. In many places the savings can be as high as 40 percent. However, the qualified nature of this statement is intended to convey the complexity of the issue and the great difficulty in predicting the results of any cookstove program.

The ceramic lined improved stoves currently promoted in Nepal have never been properly evaluated in the field. According to surveys, most stove users report a fuel savings averaging 12 to 50 percent, but this has not been confirmed through independent tests. Only in one instance, from a single household in Gorkha,

have new and traditional stoves been compared (Shakya, 1985). In a series of measurements spannings 60 days, there was a consistent fuel saving of 18 percent using the improved stove. However, the amount of fuel saved in any particular household depends on more than the type of stove used. Other factors include the type and condition of fuel, the type and amount of food prepared, the duration of each stove use, the types of pots used, and the skill and thriftiness of the cook. It is also important to recognize the amount of fuel used to prepare snacks, heat water, cook livestock feed, and other tasks that may not involve the improved stove at all.

To estimate fuel savings within an entire community, it is necessary to know the number of households using stoves, the frequency of that use, and the condition of the stoves. For long-term estimates, there should be evidence that damaged stoves are repaired and old ones replaced. Even if community savings can be established, it does not follow that the same results could be achieved nationwide. In Nepal it is probably neither possible nor even desirable that every household abandon its traditional stove in favor of a more fuel-efficient model. In the context of fuelwood management, the cookstove programs in Nepal will best serve as a temporary measure to reduce fuel demand in strategic areas so that afforestation programs can achieve their fullest impact.

Nepalese women use several different types of cookstoves and hearths, according to their needs and resources. These should be recognized and understood before any new, "improved stoves" can be evaluated.

Three-stone hearth. In the high mountain areas, much of the cooking and space heating are provided by a centrally located hearth in the main living area. A flat, shallow ash pit is dug into the floor and lined with stones. In the center of this area three large stones are anchored deeply in the earthen floor to hold the pot.

Agenu. This is a sturdy iron tripod that supports a pot for cooking main meals or daytime snacks, or which may be used exclusively to prepare livestock food. Often this hearth is also important for space heating in winter.

Traditional chulos. Women throughout the Terai and Middle Hills area commonly use special cookstoves made from carefully selected clay mixed with chopped straw and sometimes also with cow dung. The size and arrangement of potholes varies according to the needs and wishes of the user. With most chulos, two pots may be heated simultaneously. The heat under each pot is regulated simply by shifting the position of the fuel bed. There may be additional chulos to handle very large or small pots. In most cases, the pot rests on three or four raised supports to

allow exhaust gases to escape from around the bottom. Fuel burned in these stoves may include wood, straw, dung, and rice husks.

Rice husk ("bhuse") chulo. Made from heavy scrap metal, these portable stoves are common in towns where dry rice husks are available. Rice husks are said to be an acceptable low-cost alternative to fuelwood.

Kerosene stoves are becoming increasingly popular in urban homes and restaurants. These include multi-wick and the more popular pressurized models. Replacement parts are generally available. Most models are imported.

Electric hot plates are widely used in urban regions for heating water and other quick jobs. For normal cooking they are considered too slow and too expensive. Locally made ceramic hotplates are readily available and relatively inexpensive. Imported electric stoves can be purchased in Kathmandu but are quite expensive.

The two most widely distributed "improved" cookstoves in Nepal are virtually identical in all but a few details. Both feature two flat potholes aligned in series. Both also have a ceramic interior lining, ceramic chimney, and a thick-walled, clay body. The Insert Stove was first proposed in 1981. In-country development and testing were carried out at RECAST (Research Center for Applied Science and Technology). The stove is composed of several separate sections. The first section is a firebox with fuel entry and a pothole for a large pot. It is connected by a short tube to a second unit containing a smaller pothole and a prominent baffle to increase convective heat transfer to the smaller pot. Exhaust gases then pass through a narrow connecting tube to the chimney pipe. The small connecting tube is deliberately narrow so as to function as a passive damper when the chimney is hot. Early field evaluations of this stove led to several design changes: the fuel entry was reinforced; the potholes were slightly enlarged; and, the chimney cap was replaced by a terminal tee.

The New Magan Chulo also appeared in Nepal during 1981-82. It combines two potholes in a single unit. The baffle slopes gently up from the combustion chamber to reach its highest point near the middle of the second pothole. General proportions are almost identical to those of the Insert Stove, including overall height and width, pothole diameters, and the distance between potholes.

Both stove models can be produced only by experienced potters who have learned to achieve consistency in the final dimensions. Stove bodies and chimney sections are thrown on a wheel. The stove bodies are then partially dried before being given their final form. Detailed production analysis for the

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Insert Stove shows a total production time of 3 hours/stove, including clay preparation, drying, and firing (Joseph, 1984). Production of the New Magan Chulo is said to be more time consuming, but no such detailed analysis has been made.

Both stoves require skilled installation. Ceramic parts are aligned and covered with a thick clay body. This may protect the internal parts from accidental damage, but probably does not significantly reduce ceramic heat stress, nor does it make the stove any more efficient (in fact, just the opposite may be true). Instructions to installers of the Insert Stove specify a layer of mud mixed with rice husks or straw to be applied against the outside of the ceramic body. The New Magan Chulo receives only a uniform mud covering.

Since 1981, nearly 35,000 improved cookstoves have been distributed in Nepal. Most of these have been promoted through the efforts of at least 11 different projects funded by six independent agencies. Although nearly half of these projects no longer function, more stoves were reported to be distributed in 1986-87 than in any previous year.

The number of improved cookstoves currently in use is difficult to determine. In some regions, as many as 40 percent of all stoves are abandoned during their first year. Those remaining gradually fall into disuse through lack of flue maintenance, accidental internal breakage, normal wear, and other factors. Few stoves survive beyond four years. Of the 35,000 stoves distributed to date, probably fewer than 16,000 (45 percent) remain in regular use. Most of these are located near urban or semi-urban centers.

The retail cost of a ceramic-lined stove and ceramic chimney ranges from NRs. 60 to Rs. 100, not including transport. Installation adds another Rs. 10-20 (current exchange rate 27.8 per US Dollar) for materials and labor. While the final price is not high by international standards, it is far beyond what most Nepalese families are willing or able to pay. Consequently, stove projects themselves have absorbed 80-95 percent of the direct costs. The receiving family usually carries the stove from a central distribution point to the home, and provides the clay and other materials necessary for installation. The recipient may also pay for the services of a trained installer. But, because the owner's investment is so small, the stoves are widely regarded by their owners as essentially free.

In some areas, follow-up studies are conducted regularly by the CFAD to check on the use and condition of its own recently installed cookstoves. Nearly all other projects have ignored the need for follow-up information, claiming lack of manpower, funds, or interest. Some funding agencies and project managers have been

alarmed by recent private studies indicating a high rate of stove disuse in certain areas.

Field extension and promotion activities, normally considered essential components of cookstove dissemination, receive little attention in most Nepalese programs. In each of twelve districts, the CFAD employs a full-time stove promoter charged with specific responsibilities. The Terai Community Forestry Program assigns extension agents to serve both as "forestry motivators" and stove promoters. In both cases the jobs are considered temporary and the annual turnover rate is high (over 25 percent). Many agents find excuses for not venturing far into the field; others are hampered by the unwillingness or inability of higher authorities to release even the barely sufficient travel funds allowed by the HMG. Even under the best circumstances, there is too much work in most districts for a single agent to handle.

When newly recruited stove producers, promoters, and installers are ready to take their orientation training, the CFAD is prepared with a detailed training manual. Structured learning objectives and daily activities are presented in logical sequence. Properly followed, the manual can help provide many of the skills needed for a person to function as an effective field agent for the stove program. Unfortunately, no other cookstove project in Nepal has taken advantage of these training procedures.

b. Constraints

The collective achievements of the Nepal cookstove programs over the past five years are impressive. Many significant hurdles in stove design, production, and early dissemination have been largely overcome. While in retrospect it is easy to identify mistaken judgments and other errors, clearly the decisions in the most active programs were reasonable according to the best information and resource available at the time.

Massive, two-pot stoves with chimneys appear to be a good compromise of cost, performance, and durability. They are currently being used and maintained effectively in several thousand Nepalese households. In general, however, these stoves are inappropriate for a large segment of the population for a number of reasons.

They are not energy-efficient and, in actual use, probably save little wood compared to the traditional chulo. They do not handle the variety of fuels that people burn, nor do they provide both space heating and cooking heat. They are unsuitable for preparing certain traditional foods. Ceramic parts may be too heavy and too fragile for transport over rugged terrain. Dissemination is hampered by the need for skilled installers, thus

failing to take advantage of many women's stove-building skills. They require regular maintenance and cleaning, the latter distasteful to many women because of caste traditions.

Follow-up surveys indicate high initial user dissatisfaction with the stoves. Often this can be traced to poor installation, unrealistic user expectations, insufficient motivation or extension, improper use or maintenance, or other factors. Due to inevitable wear from daily use, the life of a ceramic-lined stove averages about 2.5 years. At present, nearly all new cookstoves are distributed through projects. Were project funding discontinued, the improved cookstove program would be severely handicapped. There is a need to build up a self-sustaining system for production and dissemination.

To date, whether for institutional, financial, or other reasons, development and testing of cookstoves have so far received little serious attention. The lack of extensive and continuous research has prevented stove programs from advancing as rapidly as they should. For the New Magan Chulo, there is no available record of development or testing. In the case of the Insert Stove, all of the in-country research was handled by RECAST. The work was thorough and competent, but performed sporadically and often with considerable delay. There was little follow-through and no independent initiative.

The policy of free or subsidized stoves in virtually every project has made possible the rapid dissemination of expensive stoves to people who would be unable or unwilling to purchase them at cost. This strategy may have been appropriate in the early pilot phases of dissemination. However, the negative consequences are now becoming apparent. Expense is a major issue; continued subsidies alone would require an annual HMG expenditure of Rs. 100 million. The policy discourages valuable entrepreneurial involvement and fosters an attitude of dependency on government.

Cookstoves are being disseminated without any extension or follow-up work. For women accustomed to cooking on their own traditional stoves, the ceramic-lined stoves mean modified cooking practices and unfamiliar maintenance techniques. However, most program managers fail to appreciate the need for extension services, believing that if the stoves are good, they will be accepted.

The Seventh Five-Year Plan sets a goal of 160,000 improved stoves to be distributed by 1990. The cost of such an effort, estimated at Rs. 100 per stove, was thought to be more than offset by the savings in fuelwood, assuming the new stoves consume only half the fuel of traditional chulos. While these particular goals are admirable, they have ill-served cookstove development efforts in Nepal. Several problems are apparent:

costly stove models are justified on shaky economic grounds; emphasis on numbers discourages follow-up; and, unrealistic targets are demoralizing for program personnel.

Cookstove programs can still play an important part in the conservation of forest resources in Nepal. However, in order to do so, a number of recommendations were put forward by the Wood study. They are outlined below as a technical and institutional package to be addressed by this component of the Project.

- There is a need to develop new stoves which take advantage of existing stove-building traditions. The possibility of modifying the traditional chulo for greater fuel efficiency suggests a stove which is both inexpensive and easily disseminated.

- Develop special stoves capable of providing for both cooking and space heating needs of the hill-area households - a difficult but necessary task.

- The New Magan Chulo has several disadvantages - weight, cost and production time, and insufficient improvements to merit its being promoted in favor of the Insert Stove.

- Proceed cautiously in the dissemination of the Tamang Stove. A thorough survey is needed to measure actual fuel consumption.

- Develop and promote fuel-efficient biomass stoves for use in roadside restaurants and tea shops - applying the same design principle, i.e., modifying traditional models.

- Conduct an extensive survey to better understand the use and performance of traditional stoves. This will provide a standard of stove performance against which new models can be judged.

- Cookstove dissemination can be enhanced by identifying priority zones where fuelwood scarcity is acute, by seeking alternatives to high subsidies, and by mounting an aggressive promotional and marketing campaign.

- Establish a strengthened and sustainable program for cookstove development, including the following elements: an expanded corps of cookstove extension agents - properly selected, trained, equipped and motivated; active participation of other public agencies; an effective network of volunteers; and, broad participation from the private sector.

c. Activities

The Community Forestry Division of the Department of Forests will be the primary implementing agency for the improved stove component and the institutional home for HMG staff and expatriate advisors assigned to this activity. However, it will broadly share its responsibilities with several other local agencies through formal and informal arrangements.

Stove design and testing will be carried out with RECAST or other appropriate institutions/firms working under a series of highly specific, short-term contracts. Extension services will be provided by several different organizations, either as part of their ongoing work or under special contract to the project. Stove promoters may be linked to the Department of Forests, women's organizations, local or foreign volunteer organizations, or any other group operating in the field. Training, promotion, and dissemination activities will similarly seek to include many specialized agencies as appropriate. While this may be difficult at times, the aim is to effectively tap local skills and resources and to strengthen the base of the cookstove program.

The improved stove program is based on a demand driven, market based strategy for stove production and dissemination/marketing. While the Department of Forests and other HMG organizations will be actively involved in pilot programs and in publicizing the use of improved stoves, private sector based production and marketing, with a phased diminution of subsidies, is seen as the only viable long-term strategy for improved stove development.

The most important activity stream under this component entails the development of new stove models and then optimizing the commercial, private sector production and marketing system. The second activity stream involves cookstove promotion including the careful development of dissemination strategies supported by training and extension. The third activity stream involves an ongoing program of cookstove development and a refining of production and marketing strategies based on experience gained under the program. Each of these elements is described briefly below, organized in accord with the three output streams.

o Development, Production and Marketing of New Stove Models.

- Stove Performance Survey. An extensive survey will be conducted on the performance of traditional and improved cookstoves as they are used in homes. Although the study will focus on stoves used for preparing meals, it will also include stoves and hearths used for preparing livestock feed, making raksi, heating and/or smoking snacks, and for other purposes. Collected data will include the length of cooking times, the amounts of fuel used, and the types of fuel used in various seasons. The study will be comprised of many short series of ~~consecutive-day measurements~~ over a period of several months

in selected households. Assistance in the field may be sought from such groups as local NGO's, the Women's Development Section (Ministry of Panchayat and Local Development), Institute of Forestry faculty and students, and the U.S. Peace Corps. Responsibility for organizing the study and handling the data may be subcontracted to a local consulting or research firm (A-1).

- Development of new stove models. A new generation of cookstoves will be designed and tested, first in the laboratory and then more extensively in selected homes. Early emphasis will be on modifications to the traditional stove to enable shorter cooking time and more conservative use of fuel. Other models to be developed will include commercial and institutional stoves and chimneyless stoves that can provide both improved combustion and effective space heating. Field testing will be designed to serve two functions: refinement of design; and, development of dissemination strategies (A-2).

- Marketing studies. A full, professional marketing survey will include an evaluation of the consumer base, marketable features of each stove model, possible pricing structures, development of sales and distribution networks, and recommendations for cookstove promotion. Special attention will be given to the elimination of stove subsidies. Market conditions in Nepal are unique, owing to the remoteness and isolation of many target consumer groups. It will be useful to study market research done for cookstove programs elsewhere, but these cannot be relied upon too heavily (A-3).

- Production support. Each stove model developed will be engineered for cost-effective production and marketing. Production studies will be undertaken using standard procedures already developed for a number of cookstove programs. Special attention will be given to the potential production rates, costs, and quality. The complexity of these studies will depend entirely on the stove design, but in most cases they are expected to be relatively simple (A-4).

o Cookstove promotion.

- Dissemination strategy. Each cookstove model must have its own tailored dissemination strategy based on its design, materials, the target population, and other factors. For example, a special support for recessing pots into a traditional stove can be marketed exactly like any pot or tripod, but there must also be strong extension services to encourage women to build it into their own chulos. Other stoves, such as a metal space-heating unit, may require no extension support whatever. The various dissemination needs of each stove model will become evident during their initial development testing (B-1).

- Training. Training will be an essential project activity aimed primarily at extension personnel, but possibly also including stove installers, producers, and others. Special workshops for managers of associated cookstove projects also will be planned. In many cases, training structure and materials will be based on the successful model already developed by the Community Forestry Development Project (B-2).

- Extension. A dynamic extension program will be aimed at keeping all field personnel well-informed and highly motivated. This essential activity will involve frequent direct and indirect contacts and creative incentive programs. It should result in improved user confidence and acceptance of new cookstove technologies (B-3).

- Consumer awareness and cookstove promotion. A dynamic and sustained publicity campaign will be an essential component of this project. Its aim will be to make the cookstoves irresistibly attractive to broad segments of the Nepalese population, according to consumer priorities as revealed by market research. The campaign will be broad and imaginative, using normal information channels as well as highly visible printed materials, demonstrations, and other means as appropriate. Active involvement will be sought from public and private agencies which have their own extension programs. This component will have detailed short and long-term goals, and will target specific consumer groups. Implementation and coordination will be the full responsibility of a single person, who may also be given the job of motivating project extension personnel (B-4).

o Ongoing Cookstove Development.

- Continuous cookstove development. Throughout the project it is expected that technical problems will arise that demand attention. Optimizing fuel efficiency, convenience, durability, and cost will take time and effort. This will be the responsibility of a designated national stove development center (probably RECAST) acting in close collaboration with major cookstove projects. It will supervise laboratory development and field testing, and will also serve as a repository of field instrumentation used in the project. The center will operate under contract with the project funding agency (C-1).

- Maintenance of existing CFDP Program. The existing cookstove dissemination program of the Community Forestry Development Project will be maintained and possibly expanded in those areas where the Insert and Tamang stoves have shown particular success, and where the models seem well adapted to local needs and resources. However, project subsidy will be gradually phased out and dissemination will be shifted as

rapidly as possible to the private sector. Potential stove customers will be given the choice of purchasing chimney sections or building their own chimney at a considerable savings. Detailed, illustrated instructions for chimney construction will be prepared by the project and made freely available (C-2).

d. Results

HMG, with donor support, has been engaged in the promotion of improved cookstoves in Nepal for some time. Their aim has been to reduce fuelwood demand through more efficient operation and to improve the indoor environment by evacuating smoke through a chimney.

There is little doubt that fuelwood demand in Nepal could be substantially reduced. What is needed is a combination of good technology and an energetic dissemination strategy, applied over a period of ten or more years and accompanied by major achievements in afforestation. Only an integrated approach such as this appears to have the potential for long-term significance.

Cookstove projects in Nepal have so far been ambitious but too narrowly focused. They fail to meet the needs of a diverse population, and they ignore a rich, indigenous stove-building tradition. Most programs have taken a very casual approach to stove design and dissemination. The universal granting of large stove subsidies poses a serious threat to plans for program expansion. Despite some very fine achievements with ceramic-lined stoves, the national effort now faces major challenges.

Outputs of this component of the Project will be as follows.

- Achieve designs for new domestic and commercial cookstoves which meet criteria for high fuel efficiency, low cost, user appeal, and marketability for specifically targeted ethnic groups and ecological zones and for all the people of Nepal. (3 new designs by year two, 6 by year three)

- Develop strategies for production and dissemination of specific cookstove models through a systematic series of limited pilot programs, leading to largely self-sustained, commercially-based, private sector systems that can survive a phased withdrawal of project support.

- Produce and distribute new stoves (indicative targets: year two-500; year three-4000; year four-10,000; and, year five-15,000)

- In accomplishing the above objectives, evolve a sustainable and well-integrated program to carry on promotion.

development, testing and services to the producers and users of improved stoves.

4. Component III: Special Local Cost Support

a. Background

In the midst of successful implementation of a structural adjustment program supported by the IMF and World Bank, Nepal unexpectedly went into a severe economic crisis in late March 1989. India's decision not to extend the India/Nepal trade and transit treaties when they expired, coupled with imposition of a de facto trade embargo, was devastating because of Nepal's significant dependency on India as a source of imports and market for exports. Recorded and unrecorded imports from India are estimated to be as high as seventy percent of total imports. Loss of the Indian market for exports of primary products and semi-processed goods created great hardship for those dependent on this market for their livelihood. Industries have shut down or reduced production dramatically. By far the most crippling impact was the sudden cut off of petroleum supplies from India, upon which Nepal was totally dependent. Donor-funded development projects are seriously jeopardized.

Finance Minister Pradhan convened the Local Donors Group May 30th, 1989 and, at that meeting, summarized the impact of the crisis as follows: "In the first eight months of the current fiscal year (which started mid-July 1988), the economy continued to experience strong growth and stability...Agriculture and industry recorded impressive increases in output over that period, inflation dropped to a single digit...revenue continued to increase and expenditures were held under control...our economy was heading on a path of strong growth and our policies and programs were in line with projections...(even)...with earthquake relief work (a strong quake in August 1988). (The impact of the crisis) has reverberated throughout the economy, with the result that...GDP growth estimated to reach five percent this year is now likely to be 1.6 percent...with more than a two billion rupee (rate currently 27.4 Nepali Rupees/U.S. dollar) loss in terms of output this year...significant contractions have occurred in all spheres of economic endeavor, including the financial and service sectors, and there is every indication that economic recession has already begun. The economic prospects for next year are even more alarming...the agriculture sector is likely to suffer the most...GDP is expected to (further) decline...government revenue is expected to fall further...thereby constraining domestic financing of next year's development program...the balance of payments is expected to register a deficit of about 690 million rupees...reserves will fall."

It has become apparent that implementation of the Master Plan is being severely jeopardized by unavailability of sufficient

host country budget resources to fund activities for which they are responsible in the critical initial two years of Master Plan implementation (some $35 million). Furthermore, there has been an unanticipated, accelerated demand for fuelwood. The Minister of Finance noted on May 30th, 1989, at the Donors meeting: "I would like to be assured of your continued and, in fact, increased assistance to the development of the forestry sector. Our forests, already under pressure from a growing population, have to cater to the sudden upsurge in firewood demand both from rural and urban areas owing to the shortage of kerosene. The resulting destruction of forests will undoubtedly have serious environmental consequences that extend beyond our national boundaries. Recognizing the seriousness of the problem, the Government has decided to launch afforestation and soil conservation programs in the form of a campaign to contain the damage to the environment while, at the same time, meeting the people's basic requirements from the forest. The Government has approved the Master Plan for the forestry sector. It is my earnest hope that, true to its importance, necessary external funding will be forthcoming for the implementation of the Plan." Minister Pradhan then went on to announce imposition of a severe austerity budget for the next fiscal year (starting in mid-July 1989), one which disproportionately impacts HMG's ability to provide domestic financing of the development program in the new fiscal year. Current estimates are for up to a forty percent reduction for some sectors. Even though forestry is a priority sector, it too will have to bear a share of budget reduction.

b. Constraints

USAID is convinced that the level of HMG's commitment to implementation of the policy agenda remains high. Laws are being changed; new regulations are being promulgated. What is apparent, however, is that the ability of HMG to implement the policy agenda has been severely eroded and, thus, government officials may have no alternative under the terms of their severe austerity budget but to postpone, delay, or sidetrack implementation of the important policy changes already adopted. They are undertaking on an emergency basis nothing other than a total restructuring of their trade regime for it is apparent that there will be no return to the past preferential arrangement with India. The immediate needs and demands are overwhelming. Additional local cost support is required to assure successful implementation during the first two critical years of Master Plan implementation.

USAID has had a long-term commitment to development and implementation of Nepal's Forestry Sector Master Plan, particularly with respect to the policy framework. There are clear indications that implementation in general and specifically with respect to the policy agenda during the critical initial two years is seriously jeopardized by the changed economic situation.

c. Activities

This project has budgeted a total of $3 million for purposes of funding local costs of Master Plan implementation which are the responsibility of the Government during the first two years of implementation. Decision on how funds are to be used will be made at the beginning of each trimester or longer period of time by mutual agreement. Thus, there is great flexibility built in both to facilitate stepping in where the money is most needed and using the money to facilitate and promote specific directions contained in the Master Plan which may have been sidetracked by virtue of allocating very scarce resources to higher priority items (see Annex F for fuller details).

d. Results

It is expected that, as a result of this activity, implementation of the Master Plan will be more successful during the critical two initial years than would otherwise be the case. Secondly, the implementation of the policy agenda will be closely monitored and specific funding will be supplied, where needed, to promote implementation of private sector oriented activities in the course of policy implementation. It is, therefore, expected that the process of policy implementation with specific reference to the private sector will be enhanced by virtue of this activity.

D. Project Cost and Input Estimates

The major project inputs consist of technical assistance, training, program support costs, special local cost support (funds being generated through the sale of kerosene) and commodities. Evaluations and audits will also be carried out as required.

1. U.S. Project Cost and Input Summary

Table I presents U.S. project costs by line item by year. Table II indicates the proposed obligation/expenditure pattern over the life of the project while Table III presents information on line items in terms of method of financing, method of implementation and total costs.

TABLE I

SUMMARY BUDGET/BY YEAR*
($000)

CATEGORY	YEARS 1	2	3	4	5	TOTAL
Technical Assistance						
Long-Term	400	480	240	160	160	1440
Short-Term	48	48	48	48	48	240
Subtotal	448	528	288	208	208	1680
Training						
Long Term U.S.	20	50	60	50	40	220
Short-Term U.S.	24	24	24	24	24	120
Regional Study Tours	5	20	0	0	0	25
International Meetings	5	9	10	9	5	38
In-Country Training	50	50	50	50	50	250
Subtotal	104	153	144	133	119	653
Program Support Costs						
Program Support	200	150	150	100	100	700
Local Support	81	120	57	54	51	363
Special Local Cost Support	3000	0	0	0	0	3000
Commodities	297	52	36	60	3	448
Evaluations	0	0	65	0	65	130
Audits	0	30	0	30	0	60
Subtotal	3578	352	308	244	219	4701
Inflation Factor*	90	150	160	170	200	770
Contingency**	0	60	61	38	37	196
Subtotal	90	210	221	208	237	966
Project Costs Total	4220	1243	961	793	783	8000

* Separate inflation rates were calculated for rupee costs (15%, 25%, 35%, 45%, and 55%) and dollar costs (5%, 10%, 15%, 20%, and 25%) for each year. ** Contingency is 0% for year one and 5% on all costs thereafter except year 3.

TABLE II

ANNUAL OBLIGATION AND EXPENDITURE PLAN
($000)

	FY89	FY90	FY91	FY92	FY93	FY94	TOTAL
OBLIGATION							
New Obligation	3850	1500	1000	1000	650	0	8000
EXPENDITURES							
Technical Assistance		529	648	345	262	259	2043
Training		104	153	144	133	119	653
Program Support Costs		200	150	150	100	100	700
Special Local Costs	3000	0	0	0	0	0	3000
Commodities		297	52	36	60	3	448
Evaluation		0	0	65	0	65	130
Audit		0	30	0	30	0	60
Inflation/Contingency		221	226	270	132	117	966
Total	3000	1351	1259	1010	717	663	8000
Cumulative Total		4351	5610	6620	7337	8000	0

TABLE III

METHODS OF IMPLEMENTATION AND FINANCING
($ 000)

Type of Assistance	Grantee or Contractor	Method of Implement.	Method Finance	US $ Cost
TECHNICAL ASSISTANCE				
Long-Term Technicians	U.S. Firms	AID Direct Contract	FX	1,440
Short-Term Consultants	U.S. Firms	AID Direct Contract	FX	240
Local Consultants	Local Firms or indivd-uals	AID Direct Contract	LC	136
Local Support Costs	U.S. Firms	AID Direct Contract	LC	227
Program Support Costs	U.S. Firms	AID Direct Contract	LC	700
Special Local Cost Support	see Annex F		FX	3,000
TRAINING				
U.S. Training	U.S. Firm	U.S. Contractor	FX	340
T.C. Training	T.C. Institution	U.S. Contractor	FX	25
International Meetings	U.S. & T.C. Institution	U.S. Contractor	FX	38
In-country Training	In-Country Institution	U.S. Contractor	LC	250
OTHER				
Commodities	US/Foreign Firms	U.S. T.A. Contractor	FX	448
Evaluation	U.S. Firms	AID Direct Contract	FX	130
Audit	CPA Firms	AID Direct Contract	FX	60
Subtotal				7,034
Inflation				770
Contingency				196
TOTAL				8,000

a. Technical Assistance

Long-term technical assistance to the Planning Division will consist of a senior planning advisor (five years) and a forest economist (two years) supplied through the primary contractor. An improved stove specialist will be provided for two years to work with the Department of Forests. Short-term technical advisors will be provided for a total of approximately 23 person months, spread out over the five years of the project. Local consultants, for a large variety of tasks (17 identified tasks), will be used for an estimated total of 71 person months over the life of the project. Annex K provides details of technical assistance under the project and details of local consultants.

Following the arrival of the project technical assistance team in country, a review will be undertaken by HMG and the U.S. Peace Corps to explore possibilities of using Peace Corps volunteers in implementing this project. Peace Corps assistance could be particularly appropriate in the Improved Stoves Program. Recruiting Peace Corps personnel directly for the project or establishing linkages with volunteers already in Nepal working on forestry/stove programs are both viable options.

b. Training

The FDP will involve substantial amounts of training, both formal and informal, carried out in Nepal and abroad. A primary task of all technical assistance personnel (both long term and short term, expatriate and local) will be to train the staff of MFSC. An illustrative participant training plan and schedule is presented in Annex D along with a summary of procedures to be followed for participant training selection and nomination. Annex K provides a brief summary of the categories of training activities.

c. Commodities

The project will provide approximately $448,000 worth of commodities (10 vehicles, 1 bus and 4 motorbikes, technical equipment, technical supplies, office equipment and other general items). Dollar-funded foreign procurement will be carried out by the technical assistance contractor who will act as procurement and import agent for all major commodities. The exception will be all vehicles and motorcycles, which will be procured directly by AID. Some supplementary procurement and any required special procurement assistance will be provided by the USAID Procurement Office. Local procurement will be conducted by the contractor in conformance with applicable AID regulations and procedures. Annex K presents an indicative list by project Component of equipment and commodities funded by the project. It does not include limited amounts of supplies and materials available on the local market which will be purchased under the program support budget line item. Note that computer procurement in excess of $100,000 would necessitate preparation of a special procurement plan to be submitted to AID/W for approval.

A refined procurement list will be prepared and justified each year as part of detailed annual implementation planning. Exact details and/or specifications will also be part of the Project

Implementation Orders for Commodities (PIO/C's) prepared by the contractor and submitted to USAID and HMG for approval prior to procurement.

d. Program Support Costs

Funds have been set aside in the project budget ($700,000) to cover program support costs. These include selected support primarily for field operations and training in both project components to provide support to the Planning Division. Additional requirements for program support will likely be identified during the course of project implementation. These funds will be provided through the technical assistance contractor. Programming of these funds will be carried out jointly by the USAID Project Officer, HMG Project Director and the Chief of Party of the technical assistance team.

e. Special Local Cost Support

The project will provide the sum of $3 million to support special Master Plan implementation local costs. It has been decided that the effectiveness of these funds can be multiplied by utilizing an implementation mechanism which promotes use of alternate energy sources as a substitute for fuelwood usage in major urban centers such as Kathmandu. Specifically, the local ~~currency required to support~~ special local costs will be generated by procurement of increased supplies of kerosene used as a substitute for fuelwood in cooking and heating. Proceeds from the sale of kerosene will be deposited in a separate, special account. HMG will proposed use of these fund on a trimester (or, longer period of time by mutual agreement) basis by identifying specific unmet forestry Master Plan implementation budget items to be funded. USAID will concur in the use of such funds subsequent to a detailed review of progress in implementation of the Master Plan with specific reference to those policies felt to be most important. Annex F sets forth details of how this project element will be implemented.

2. HMG Project Cost Summary.

HMG will finance program support costs and some minor training costs for the Planning Division and Stove Unit. Staff costs, facilities usage cost, and operating expenses are estimated in Table VIII over five years.

The host country contribution of $732,000 only represents 8% of total project costs, but is misleading in terms of HMG's contribution to implementation of the Master Plan (see Annex K). Over the next five years, HMG contribution is scheduled to be $95,900,000 or 38% of the total cost. Private contributions will equal 10% or $26,500,000 and external assistance (including AID) will total 52% or $131,900,000.

3. Financial Management

The methods of financing under this project are entirely consistent with preferred AID payment procedures as indicated in AID/Nepal's Mission General Assessment of Mission Financing Policies and Procedures.

The management of AID costs under the Project will follow AID standard regulations and USAID operating policies and procedures. Within the prescriptions of the Project Grant Agreement, the earmarking of these funds will be done through PIO's signed by USAID. Administrative reservation for specific purposes of local cost support will be done through PIL's.

III. SUMMARY PROJECT ANALYSES

This section contains summaries of project analyses related to Component I (Planning) and Component II (Stoves). See Annex F for analyses related to the support of special local costs.

A. Technical Analysis

The Forestry Development Project is part of an overall program of multilateral and bilateral donor support for implementation of the recently approved Master Plan for the Forestry Sector. This program, involving major funding by the World Bank and Asian Development Bank and significant support from a wide range of other donors including UNDP/FAO, ODA, Australia, SDC, FINNIDA, DANIDA and USAID, addresses the principal issues and constraints facing forestry development in Nepal. These include: the diminishing forest resource base and its impact on the supply and demand of basic forest products (fuelwood, domestic timber and fodder needs) essential to the well being of the vast majority of the people of Nepal; the consequent undermining of long-term productivity and sustainability of the country's forest-dependent rural production systems; and, the necessary policy and institutional improvement required to promote and facilitate greater popular participation, an essential prerequisite to reversing current trends.

The Project supports the policy of HMG to provide priority attention to Master Plan Program No. 1 (Community & Private Forestry) and to decentralize forestry sector development planning and field programs. A great deal of experience in community forestry has accumulated in recent years as a result of a multiplicity of large and small HMG and donor funded projects. These projects have encouraged and facilitated participatory forest resources development schemes including: Panchayat Forests (PF - locally established plantations); Panchayat Protected Forests (PPF - locally protected and managed natural forest areas); and, tree planting on private farm lands. There has also been a concomitant enhancement in the collaboration between Forest Department staff and rural people. This cumulative experience has, however, also served to identify important policy, legal, organizational, technical and economic constraints which have been analyzed in the Master Plan and related studies and are now in the process of being addressed by the aggregate of activities supporting implementation of the twelve Master Plan programs. USAID/Nepal's role in this, through the Forestry Development Project, targets two key areas and will be critical to overall success.

The Master Plan, the result of a three-year effort supported by ADB, FINNIDA and several others donors including ODA, FAO and USAID, gives primodial importance to soliciting the active participation of local people to develop and manage forest resources in order to meet their basic needs. It should be noted that the Forestry Development Project identification and design process has been carried out in close collaboration with the

Master Plan team, HMG representatives, and other donor teams designing a series of projects to support implementation of Master Plan programs.

Great care has been taken to ensure a cohesive and comprehensive program consistent with the recommendations of the Master Plan and HMG policies and plans. This process has produced benefits in and of itself. It has been mutually supportive and all participants and projects have greatly benefited from the frank and open exchange of information and discussion of plans. In effect, the overall preparation of the Forestry Development Project and related projects supported by the World Bank, Asian Development Bank, UNDP/FAO, FINNIDA and DANIDA has been a first exercise in what must become more routine coordination in support of HMG forestry sector development efforts. It marks a turning point towards an increasingly rationalized approach to this sector so vital to Nepal's long-term socio-economic development. This initial effort at a program approach will progressively be expanded to other projects and program areas, so that the diffusion of viable solutions and the systems to promote and sustain them can be accelerated.

Cooperation and coordination must remain as cornerstones to the portfolio of projects developed to support implementation of Master Plan programs. Doing so will, no doubt, be a challenge. There is every reason to expect, however, that having attained a high degree of cooperation in designing and launching the Master Plan program, the progress to be achieved will further stimulate this important process. The planned program coordination meetings and the important efforts aimed at sector planning in the FDP are intended to capitalize on these gains and support the institutionalization of the program approach in the forestry sector. Furthermore, working and learning together, the various projects under the Master Plan program umbrella can increase the payoff from their individual investments.

In short, from a conceptual standpoint, the Forestry Development Project is logical and timely. The proposed project is consistent with HMG policies and plans and can be expected to make a vital contribution to sector development in the years to come, moreso because it is also a part of a concerted effort by HMG and the donors to begin approaching forestry in a more rationalized way. The Project provides a good example of relatively modest USAID resources programmed with the inputs of the other donors to achieve maximum impact and effectiveness.

The Forestry Development Project, it should be noted, also conforms specifically to USAID/Nepal's CDSS for FY88-92 which stresses increased economic growth to be achieved primarily through improved agricultural production, better management of productive resources, and stimulation of private sector involvement in development. It will do so by assisting HMG's Ministry of Forest and Soil Conservation to strengthen its institutional capability and operational effectiveness for guiding, promoting and servicing sustainable and increasingly

productive forest and tree management schemes so vital to Nepal's forest-based land-use and life-support systems.

The proposed project complies directly with Agency policy on forestry development and serves as an excellent example of USAID participation in the implementation of the global Tropical Forestry Action Plan.

An operational strategy for the Forestry Development Project involving two components has been devised in order to achieve the stated purpose of the project and to ensure appropriate fit with the activities foreseen under the other projects included in the Master Plan programs. These two components, I- Forestry Policy and Planning, and II Improved Stoves, have been carefully reviewed and discussed in a collegial and collaborative atmosphere which has characterized the HMG/Donor programming process.

Each of the project components constitutes a combination of institutional strengthening, training, and operational results. Efforts in all three areas are required to maintain and accelerate the achievements resulting from HMG's progressive approach to forestry.

B. Economic and Financial Analysis

The Forestry Development Project (FDP) funds two distinct and separate activities as part of multi-donor financed implementation of the Forestry Sector Master Plan. The first falls into the category of institution building through human resource development (support of the Planning Division) and the second is a research/pilot production and marketing project (development of improved cookstoves). As noted in the PID, economic and financial analysis of two unique components of a multi-component program (i.e., implementation of the Master Plan is the "program") independently is not appropriate. USAID did not consider undertaking these two components independent of implementation of the Master Plan. Further, the appropriateness of "economic analysis" of institution building and research is highly debatable given that the tools involved presume monetized benefits which are not obtainable in virtually all cases for these types of activities and, even where it is attempted, results are suspect and offer little real value to the decision-making process. The approach normally employed when working with projects that fall into the category of institution building/resource development/research is one of determining "least cost" among alternative designs for a specific project or computing cost per output unit for the purposes of comparing alternative projects proposed in the same sector. Neither of these approaches is appropriate in the case of this project. The decision on whether to support the Master Plan and which components of the implementation process would be supported by USAID was made on non-economic grounds, and properly so.

The assumption can, however, be made and supported that if the overall program (implementation of the Master Plan) is an economically sound investment for the country then USAID support of two components of the package would be justified, assuming a degree of criticality between the USAID supported components and the overall implementation package.

The Master Plan implementation process extends over a twenty-one year period with full detailing of costs and benefits as well as a time-phased investment program and division between donors, local resources and government of the costs for each of the twelve subordinate programs. Total costs will be about 1.7 billion U.S. dollars in 1988 constant dollars. Overall, program costs will be shared 34.4 percent from the government, 35.4 percent from the private sector and 30.2 percent from donors. The level of external assistance is programmed to be relatively higher during the earlier phases of implementation, decreasing as the results of implementation become more significant. Statistics for total costs are presented in terms of Nepal's five-year planning cycle. Implementation begins during the last years of the 7th Plan, with a total of 41.5 million dollars and calls for 285.5 million during the 1990-1995 8th Plan which takes us to the proposed PACD of the USAID project.

Volume II of the Master Plan presents the Financial and Economic Impacts of implementation of the Master Plan. It was reviewed and the results of the economic and financial analysis undertaken are summarized below.

There was a comparison of what would occur in terms of production with the implementation of the Master Plan and without its implementation. Scenarios were developed setting forth land use and the supply and demand balances for fuelwood, timber and fodder. On the basis of the results of this comparison, economic benefits were determined. For example, the estimated increase in fuelwood, fodder and timber production over the twenty-five year period was valued in terms of an increase in income of almost 24 billion rupees at current prices. Employment resulting from implementation was estimated at a million person-years of full-time jobs. A better quality of life for rural people will result from the increased availability of fuelwood for cooking and heating; more feed for livestock which in turn will provide milk, meat, hides and dung for food production; more timber for shelters; increased security from natural disasters because of a better soil cover and the building of more erosion control structures. A better resource allocation mechanism would ensure that soil conservation structures will be applied only in those areas where the socio-economic benefits would cover their costs.

A cost-benefit analysis was carried out which included all investment and recurrent costs, excluding duties and taxes, but including physical contingencies. An economic internal rate of return (EIRR) was estimated for implementation of the Master Plan as a whole based on programs which involve production of fuelwood, fodder and timber. Support programs (human resource

development, resource information system development, research and development and forestry extension) were all included in the costing. It was expected that the net incremental economic benefits of implementation of the Master Plan would start accruing from the seventh year after implementation had begun. The incremental benefits should amount to about 95 million rupees in that year and are expected to reach 4615 million rupees by the end of the plan period. A comparison of the economic costs and benefits shows that the EIRR is about 36%. The sensitivity analyses based on a 20% cost over-run, a 20% shortfall in benefits or an increase in costs at the same rate would still yield EIRRs of 31, 30, and 25 percent respectively. Those interested in the details should consult the Master Plan documents (Executive Summary and Volume II) which are appended to and considered a part of this analysis. Corroboration is contained in the World Bank 2nd Forestry Appraisal Report (supporting Program No. 1 of the Master Plan, Community and Private Forests) which suggests a 36 percent internal rate of return for this program.

The issue now becomes one of the relationship of the USAID project to implementation of the Master Plan. The development of the Master Plan itself was the product of the Planning Division - the institution being assisted under this USAID project. As with most master plan exercises, the development of the overall plan serves to accumulate basic data, coalesce divergent elements, and provide a framework rather than serve as a blueprint in sufficient detail to implement. Thus, actual implementation of the Master Plan becomes a planning exercise and this planning function rests with the Planning Division. For that reason, it is herein argued that improving the capabilities of the Planning Division is critical to implementation of the entire Master Plan.

Essential to success in achieving the benefits attributed to implementation of the Master Plan is a reduction in the demand for fuelwood. As noted in the report titled "Assessment of Cookstove Programs in Nepal" by Dr. Timothy Wood submitted to USAID as part of the project development process, "cookstove projects in Nepal have so far been ambitious but too narrowly focused. They fail to meet the needs of a diverse population and...ignore a rich, indigenous stove-building tradition." He goes on to note the need to take into consideration the economics of the situation in designing stoves that will be used and, therefore, achieve the benefits (as much as a forty percent reduction in fuelwood use). The program to be supported is geared to developing new, inexpensive cookstoves and establishing a program for development and testing based on a withdrawal of most subsidies, private sector production of the stoves and use of cookstove extension agents. There is evidence of stove programs achieving significant levels of success after initial years of learning. USAID will be supporting the "learning" phase. It is certainly arguable that without supporting a research phase, the contribution of reduced fuelwood use to the benefits calculated for the Master Plan would be minimal. One could monetize this by noting the average household in Nepal uses 248 kgs of fuelwood per

year and, therefore, the potential savings would be: 248 X 2.6 million households X 40% savings by using new cookstoves X the value of commercial wood (70 rps per quintal currently) and, reduce that figure by the estimated percentage of switchovers to new stoves over time or use the targets for new cookstove use contained in the Master Plan. The results could be compared to costs involved for this program but would realistically be, in the author's opinion, essentially meaningless.

The only economic issue identified in the PID as significant is the ability of the government to support recurrent costs of development programs per se. This issue has been raised, discussed and evaluated in the context of USAID's portfolio as well as the portfolios of multilateral development institutions. At this juncture in time (the current Nepal/India trade/transit crisis), there is no basis upon which to suggest that the Government of Nepal can afford the level of investment required to implement the Master Plan because so many essential variables are unknown including what kind of trade regime is likely to prevail. It is of relevance that the USAID components themselves call for no increased expenditure of funds beyond what was already programmed as normal operations. Thus, this project per se does not create a recurrent cost burden. Further, should implementation of the Master Plan be delayed as a result of the future budgetary ramifications of the current situation, the investment made in this project would not be lost given its institution building/research orientation.

The Master Plan does address the issue of recurrent costs, concluding that one of the basic problems is that the Government has not had in the past and would not have in the future sufficient funds to properly manage and develop the forestry sector. Thus, the basic redirection involved in adoption of the Master Plan is to substitute local resources for central budget resources by orchestrating a program of shifting control and management responsibilities to the people who use the forest products with the Government in a support role. In projecting source of investment, there is a dramatic shift over time of the role of the private sector, which provided 8 percent of investment funds during the current fiscal year (1988-89), to the position of the major investor (programmed to provide 48 percent of funds by the end of the twenty-one years). Donors funded 53 percent of investment in the current fiscal year and will drop to 18 percent by the end of the program. The central budget contribution declines from 39 percent currently to 34 percent.

It is also interesting to note that the Executive Summary (page 32) concludes that "the rate of increase in investment required from the government is only slightly higher under the Plan than in earlier years in real terms".

C. Social Soundness Analysis

The project is judged to be socially sound. It builds on social science knowledge and development experience relating to forestry development in Nepal including recent understanding and appreciation of indigenous knowledge, traditional resource management systems and local management potential. It also builds on Master Plan programs designed to assist Nepal's foresters reorient themselves to a more extension oriented, participatory development mode. It reflects an appreciation for the abilities of rural people to react positively and responsibly to the challenge of local forest management on the one hand, and of MFSC personnel to perform their duties in new and creative ways on the other. Through its role in guiding implementation of Master Plan programs including Program No. 1 (Community & Private Forestry), the project will assist in facilitating local management skills and responsibilities in place of an older model of centralized and top-down forest management. The project is designed to strengthen the analytical and programing skills of MFSC planners and policy makers as well as assist with strategy analysis in key areas related to natural resource management in Nepal, including the important gender issues which are a crucial part of effective forestry programs in Nepal.

Past social science research shows that community participation and cooperation in resource management is a fundamental fact, a cultural tradition widespread in rural Nepal. It also shows that women play a fundamental role and bear important responsibilities for forest and tree management and utilization.

Evidence exists to show that MFSC personnel are generally able to reassess their professional roles and to address the problems and issues of forest management, research and extension provided that opportunities exist or are made available to reorient and prepare them to act constructively, responsibly, and with adequate knowledge and conceptual flexibility.

This project dovetails closely with other donor assisted projects, especially those sponsored by the World Bank, Asian Development Bank, UNDP/FAO and FINNIDA as well as with human resource development projects supported by FINNIDA, DANIDA, and USAID assistance to the Institute of Forestry.

Given the built-in sensitivities to socio-cultural and socio-economic issues and variables in this project, combined with the level and quality of technical assistance and financial support envisioned, the infrastructural development anticipated, and HMG concurrence and support as planned, there is every indication that the project can be implemented successfully.

D. Institutional/Administrative Analysis

The Forestry Development Project will provide assistance necessary for Nepal to strengthen and further develop two key elements of its national forestry program: forest policy & planning; and, improved stoves. The Master Plan for the Forestry Sector has included a detailed analysis of the institutional and administrative arrangements for implementation of forestry programs in Nepal and has made recommendations for substantial changes in institutional structures and administrative arrangements. A number of important institutional changes have already been made by HMG. Additional changes are proposed by the Master Plan and will be considered by HMG over the next several years.

The two components of FDP will be implemented by two separate entities within the MFSC. The MFSC Planning Division will implement Component I while the Community Forestry Development ~~Division of the Depar~~tment of Forests will be responsible for implementation of Component II.

The Planning Division is responsible for assisting the Secretary in formulating plans and programs and coordinating implementation of these policies, plans and programs. The Division is assisted by the departmental level planning units in carrying out these functions. However, due to limited staff and insufficient training, these functions have not been effectively carried out. Following preparation of the Master Plan, a strong planning body within MFSC is required to guide Master Plan implementation. Component I has been designed to strengthen the capabilities of the Planning Division so as to enable this unit to carry out its mandate effectively. The present shortage of skilled manpower in the Division will be supplemented with both long and short-term technical assistance. The activities of this component will be carried out in a carefully phased manner utilizing available staff, technological and operational resources and capabilities as these evolve.

The Improved Stove Unit of the Community Forestry and Afforestation Division (recently renamed Community Forestry Development Division) of the Department of Forests is a small unit which has been responsible for implementation of DOF improved stove programs over the past eight years. The strengths and weaknesses of this program, and the Unit responsible for implementing it, have been candidly assessed in a design study prepared for development of the Forestry Development Project (Wood, 1987). The work to be carried out under Component II will be based primarily within the Community Forestry Development Division, but will rely heavily on other organizations (i.e., RECAST for stove design work) and the private sector for the production and marketing of improved stoves. The private sector based, demand-driven model which serves as the foundation for this component is new. While implementation of this component is breaking new ground and is, as a result, fraught with certain

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risks, the importance given to the improved stove program in the Master Plan coupled with the widespread acceptance of the critical assessment of improved stove programs which serves as the basis for the design of this component would appear to indicate that the time is ripe for the launching of this new initiative.

The implementation plan for the project has been drawn up taking into account weakness in current staffing and institutional/ administrative arrangements. A phased implementation supported by staff expansion and a large training program is expected to rapidly build up the implementation capabilities of these institutions by the middle of the project period. This approach will help ensure the long-term sustainability of the program.

E. Environmental Analysis

An Initial Environmental Examination, attached as Annex B to the Project Identification Document for this project, recommended a finding of no significant negative environmental impact by any project activities. This finding was approved by the Asia & Near East Bureau Environmental Office on January 5, 1988. No further environmental analysis has been undertaken.

IV. IMPLEMENTATION AND ADMINISTRATION

This section contains information relating only to Component I (Planning) and Component II (Stoves) because these are on-going elements of the project. The special local cost component is a highly specialized activity and involves considerable delineation of details covering procurement of kerosene and generation of local currency. Because it is both useful and important to set forth the manner of implementation, administration, auditing, evaluation and management of this complex component in one place, it was decided to treat this project element separately and place all relevant material in one location, Annex F.

A. Implementation Schedule

Table IX presents a detailed illustrative implementation schedule for project Components I and II. In terms of overall project administration, the following suggests the probable schedule of events:

Activity	Agent	Date
PP approval	USAID	9/89
Project Agreement Signed	USAID, HMG	9/89
Initial Funds Obligation	USAID, AID/W	9/89
RFP Issued	USAID	10/89
Contractors Proposals Reviewed	USAID, HMG	1/90
Contractors selected	USAID, HMG	2/90
Contractors' Personnel Arrival	Contractor	4/90
Activities Initiated	Contract, USAID, HMG	4/90
First Major Evaluation	AID/W, USAID, HMG	5/92
Audit (if required)	Audit firm	6/92
Final Evaluation	AID/W, USAID, HMG	5/94
Final Audit (if required)	Audit firm	12/94
Contractor Completion Report	Contractor	6/95

B. Conditions and Covenants

1. Condition Precedent to Initial Disbursement

Prior to the first disbursement under the Grant for other than procurement of kerosene, or to the issuance by USAID of documentation pursuant to which disbursement will be made, HMG will, except as may otherwise be agreed in writing, furnish to USAID in form and substance satisfactory to USAID, documentation demonstrating designation of the Chief Planning Officer of the Planning Division as the Project Director for the Forestry Development Project.

The HMG, through the Nepal Oil Corporation, will provide a solicitation document for procurement of kerosene to USAID which complies with all applicable A.I.D. requirements.

2. Conditions Precedent to Additional Disbursements

ILLUSTRATIVE IMPLEMENTATION SCHEDULE

Component Activity/ Number	Activity	Year 1				Year 2				Year 3				Year 4				Year 5			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
I-A-1	Study MFSC planning function	[-																			
I-A-2	Task force on job description review		[-																		
I-A-3	Training strategy		[-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	]
I-A-4	Implement procurement plan		[-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	]			
I-B-1	Briefing papers on Master Plan						[-	]													
I-B-2	Review Master Plan data-base			[-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	]
I-B-3	Prepare unit work plan								[-	-	]		*				*				*
I-B-4	Task Force on Program Budgeting		[-	]																	
I-B-5	Implement Program Budgeting			[-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	]
I-C-1	Working paper-policy agenda								*				*				*				*
I-C-2	Policy review study series					[-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	]
I-C-3	Working paper-program formulation					[-	-	-	]												
I-C-4	Working paper-institutional analysis														[-	-	]				
I-C-5	Working paper-MFSC-Training Strategy																			[-	]
I-C-6	Economic research working group													[-	-	-	-	-	-	-	]
I-D-1	MFSC project planning methodology						[-	]													
I-D-2	Priority project idea profiles										[-	-	-	-	-	-	-	]			
I-D-3	Participate in project identification					[-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	]
I-D-4	Participate in project evaluation					[-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	]
I-E-1	Planning information needs assess.							[-	]												
I-E-2	MFSC consultations re: info needs														[-	]					
I-E-3	Implement planning/programming info system														[-	-	-	-	-	-	]
II-A-1	Stove performance survey		[-	-	]																
II-A-2	Development new models				[-	-	-	-	-	-	-	-	]								
II-A-3	Marketing studies		[-	-	-	-	-	-	]												
II-A-4	Production support						[-	-	-	-	-	-	-	-	-	-	]				
II-B-1	Dissemination strategy						[-	-	-	-	-	-	-	-	-	-	]				
II-B-2	Training		[-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	]
II-B-3	Extension						[-	-	-	-	-	-	-	-	-	-	-	-	-	-	]
II-B-4	Consumer awareness & cookstove promotion						[-	-	-	-	-	-	-	-	-	-	-	-	-	-	]
II-C-1	Continuous cookstove development										[-	-	-	-	-	-	-	]			
II-C-2	Maintenance CFAD Program		[-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	]

Note: All of the tasks outlined above will be carried out by the HMG/technical assistance contractor team.

a. Prior to disbursement under the Grant, or to the issuance by USAID of documentation pursuant to which disbursement will be made for any project activity, except for technical assistance and training and procurement of kerosene, HMG will, except as may otherwise be agreed in writing, furnish to USAID in form and substance satisfactory to USAID, evidence that all conditions for negotiation and final signing of the World Bank financed Second Community Forestry Project (Hills) have been satisfactory met.

b. Prior to disbursement under the Grant, or to the issuance by USAID of documentation pursuant to which disbursement will be made for any project activity, except for technical assistance and training and procurement of kerosene, HMG will, except as may otherwise be agreed in writing, furnish to USAID in form and substance satisfactory to USAID, evidence of HMG endorsement and formal adoption of the Master Plan for the Forestry Sector, including the proposed Forest Policy.

3. Covenants

Except as the Parties may otherwise agree in writing, HMG will:

a. Provide financial and other contributions on a timely basis during the Project according to mutually agreed upon annual programs and budgets;

b. Develop and implement a mutually acceptable plan to assign sufficient qualified personnel to carry out the project, including a counterpart for each long-term technical assistance advisor hired under the project, and provide working space for technical assistance personnel within the relevant HMG/MFSC offices;

c. Establish the additional positions required in the Planning Division of the Ministry of Forests & Soil Conservation and the Community Forestry Development Division, Department of Forests by January 1, 1992;

d. Proceed with implementation of the Master Plan for the Forestry Sector on a timely basis; and,

e. Make a concerted effort to develop and implement a phased reduction of stove subsidies.

f. Kerosene procurement method and utilization of commodities:

(1) The procurement and utilization of kerosene financed under this Grant are subject to A.I.D. regulations as from time to time amended and in effect, except as A.I.D. may otherwise specify in writing

(2) The Grantee will assure that kerosene financed under this Grant will be effectively used for the purposes for which the assistance is made available. To this end, the Grantee will use its best efforts to assure that the following procedures are followed:

(3) Accurate arrival and clearance records are maintained by customs authorities; imports are promptly processed through customs at ports or entry; such imports are removed from customs and/or bonded warehouses within ninety (90) calendar days from the date the commodities are unloaded from the vessel or conveyance at the port of entry, unless the importer is hindered by force majeure or A.I.D. otherwise agrees in writing; and

(4) Kerosene imports financed under the Project are consumed or used not later than one (1) year from the date the imports are removed from customs, unless a longer period can be justified to the satisfaction of A.I.D. by reason of force majeure or special market conditions or other circumstances.

(5) The Grantee will assure that kerosene financed under the Project will not be re-exported in the same or substantially the same form, unless specifically authorized by A.I.D.

g. Establishment and use of special account for kerosene:

(1) The Grantee shall establish a Special Account in a bank mutually agreed upon by the Parties and, except as the Parties may otherwise agree in writing, shall, not later than four (4) months from the date of delivery to the Grantee of kerosene financial hereunder, deposit in such account, the local currency equivalent of the cost of such kerosene, including international transportation.

(2) Except as the Parties may otherwise agree in writing, the Grantee shall propose to A.I.D. on a trimester basis allocation and disbursement of Special Account funds as budget support for implementation of the Forestry Master Plan. Priority will be given to those budget items program that promote private sector involvement in forestry. Disbursements shall be agreed upon on the basis of progress in policy implementation.

(3) The Grantee shall within four months form the date of this Agreement establish a Local Currency Committee, including the MFSC Project Director, USAID Project Officer, Ministry of Finance Representative, and other appropriate officials of the HMG/N, to propose allocation and disbursement of Special Account funds and to review deposits and disbursements of such funds for agreed upon budget line items in the Forestry Master Plan.

C. <u>Contractor Selection</u>

USAID will contract directly with a U.S. firm to provide technical assistance, training and commodities (other than kerosene) based on the project design outlined above. The firm

(or group of firms) winning the contract will be expected to subcontract with a Nepali firm (or firms) to provide local consultants, in-country training and selected support services.

As FDP Component I involves high-level program and policy work, contractor personnel necessarily will require great professional stature and extensive experience in advising foreign officials. In order to effectively work with MFSC and senior HMG staff, technical advisors must have broad vision, strong technical qualifications and a working style that will be effective in Nepal's cultural context. In the case of Component II, contractor personnel will require strong technical qualifications, a proven track record in implementing a demand-driven, market-based program along with a working style that will be effective in Nepal's cultural context.

Given the highly specialized technical assistance requirements of the project, the degree to which project success depends on the caliber and dedication of a select group of individuals, and the difficulties that many contractors have faced in staffing and implementing projects in Nepal, it is the intent of both USAID and HMG to rely on open competition for provision of these services advertized as widely as possible and to place particular emphasis on prior relevant experience. All of this is with the understanding, however, that small businesses and women or minority-owned firms will be encouraged to offer proposals for this contract individually or in association with other firms and that bids including participation of such firms will be given preference to the extent allowable under Agency contracting regulations.

Following review of capabilities of U.S. firms to implement Component II, it has been decided that utilization of the OPG funding mechanism with a U.S. private voluntary organization (PVO) would restrict competition unnecessarily. As such, a single contract will be let for implementation of both components of the project, with U.S. PVOs welcome to bid on either the whole contract or for elements of it in association with other firms.

Host country contracting was considered and determined not to be appropriate for this contract. The MFSC has not had experience in negotiating and administering this type of contract with a U.S. firm, and prefers to have USAID assume administrative responsibilities for the contract.

It is planned that contract evaluation and negotiation will be done in Kathmandu by USAID together with HMG.

D. General Procurement Plan and Waiver Requirements

1. Procurement Plan

A procurement plan has been developed as part of the Technical Analysis. Detailed procurement plans are to be

developed by the technical assistance contractor for Components I and II per the schedule outlined in Section IV A above.

a. Responsible Agency: Responsibility for the planning, execution and monitoring of procurements under this project will be assigned to the technical assistance contractor, subject to management guidance provided by USAID in consultation with MFSC.

b. Procurement Entities: Procurement activities under this project will be divided into three separate portions: overseas purchasing of vehicles (to be handled by USAID); other overseas procurement (including necessary shelf item requisitions); and, local purchasing. Other overseas procurement and local purchasing will be entrusted to the technical assistance contractor.

Solicitation of offers for the services of a technical assistance contractor will request information regarding procurement capability and past purchasing experience of the firms submitting offers. Firms possessing purchasing capability considered adequate may be asked to undertake project procurement. Others, which are found not to have such capability, may be required to subcontract with a professional PSA to handle procurement. Solicitation, evaluation, selection and contracting with a PSA will be subject to approval by USAID.

All procurement will be carried out in accordance with AID regulations and good commercial practices.

2. Waiver Requirements

A waiver was obtained for the requirement by the HMG to contribute 25% to the overall project cost (State 227378).

A waiver will be used for procurement of vehicles (the Agency blanket source/origin waiver for purchase of right-hand drive vehicles, Ref. 89 State 79274).

Computer equipment is to be purchased by the project for development of a Planning/Program Information System. A detailed procurement plan will be developed during project implementation. Agency guidelines contained in the September 1987 version of Guidelines for Managing Automation Assistance in AID Development Projects will be used in developing the procurement plans. These will be reviewed by the USAID Systems Analyst and forwarded to AID/W for review and approval if/as necessary.

For the procurement of kerosene, the following waivers will be obtained; geographic code 899 for procurement of kerosene and a waiver of the 50% rule for use of U.S. flag vessels.

E. Administration and Management

1. HMG Project Management

The HMG entity responsible for implementing the Forestry Development Project will be the Ministry of Forests and Soil Conservation (MFSC). Under the reorganization of the Ministry, one Additional Secretary is responsible for the Monitoring & Evaluation, Survey & Statistics, Extension & Communication, and Training Divisions. The other Additional Secretary is responsible for the Department of Forests, Department of Forest & Plant Research, Department of Soil Conservation & Watershed Management and Department of National Parks & Wildlife Conservation. The Planning Division reports directly to the Secretary, MFSC.

The Chief Planning Officer will serve as the Project Director for the Forestry Development Project and as counterpart for the Senior Planning Advisor. The Project Director will be responsible for overall direction of the Project as well as for day to day implementation of project Component I. Project Component II will be implemented by the Department of Forests, Community Forestry Development Division. Responsibility for implementation of Component II will rest with the Director General, Department of Forests who will delegate day to day implementation responsibilities to an appropriate member of his staff in the Community Forestry Development Division, who will serve as counterpart to the Improved Stoves Advisor.

2. USAID Project Management

USAID's Office of Agriculture and Rural Development (ARD), will be responsible for implementation of the Forestry Development Project and will supervise the various elements of the project including technical assistance, participant training, and procurement. The ARD officers responsible for the project will actively seek to develop linkages between the FDP project and other projects within the USAID/ARD portfolio, particularly the Rapti Development and Institute of Forestry projects as well as support being provided to Winrock International for work on agricultural and natural resource policy analysis. One additional FSN Professional to serve as Project Officer for the Forestry Development Project will be required.

A USAID Project Committee has been established to provide review, policy guidance and implementation support within USAID for FDP. The USAID Office of Financial Management will provide financial management for disbursement of USAID funds. The USAID Executive Office will provide support for contracting and procurement. Participant training support and overall program and budget coordination within USAID will be provided by the Office of Program and Project Development.

The project management responsibilities of the technical assistance contractor, including relationships with USAID officers and HMG counterparts, will be clearly spelled out in the technical assistance contract. Scopes of Work for long-term technical assistance personnel are outlined in Annex E.

F. Monitoring, Evaluation and Audit

Project implementation will include systematic monitoring and periodic evaluation and audit of both project components: (I) Forestry Policy and Planning; and, (II) Improved Stoves.

1. Monitoring

The monitoring system of FDP will make maximum use of the existing HMG monitoring/evaluation format, designed by the National Planning Commission for its trimester and annual progress evaluation, so as not to create unnecessary additional workload. HMG's periodic progress reports provide information on inputs and outputs by activity. Additional information required for project monitoring will be obtained from contractor and consultants reports. These periodic progress reports will provide information on both quantifiable and nonquantifiable project outputs.

The MFSC Planning Division plays a vital role in guiding implementation of Master Plan programs. As improved stoves are part of the national community forestry program, successful implementation of the improved stove program will have a direct impact on the national forestry development program.

The inputs provided for Component I, Forestry Policy and Planning, will support five major output streams: (a) strengthening of the Planning Division and the planning system; (b) institutionalization of planning functions; (c) development of additional analytical capability; (d) institutionalization of project planning, analysis and evaluation; and, (e) establishment of the program budgeting component of a management information system (MIS). These output streams and their component activities are expected to result in meeting the project purpose, i.e., development of an efficient and effective Planning Division within MFSC, capable of adjusting and strengthening the planning system as a whole to support forestry sector programs.

Monitoring a component with outputs of this type will require careful tracking of inputs and activities over time. The primary concern of the monitoring system will be to analyze whether inputs are flowing as planned and whether the activities are occurring as scheduled. This can be done, as indicated above, through use of HMG trimester and annual progress reports supplemented with contractor and consultant reports.

The inputs under Component II, Improved Stoves, will support three major output streams: (a) development, production and marketing of new stove models; (b) cookstove promotion; and, (c) ongoing cookstove development. Several important outputs of

these activities can be easily quantified, i.e., number of stove models developed, and the number of improved stoves produced and distributed through commercial channels. Other important outputs, such as the effectiveness of stove extension and promotion programs, consumer satisfaction, and both perceived and quantifiable benefits (i.e., reduced consumption of fuelwood), are more difficult to measure and will need to be the subject of specially designed surveys. Monitoring of this Component must start right from the laboratory stage of testing of fuel efficiency of new models and follow through cost effectiveness of production and distribution, user appeal, and appropriateness to specific geographic zones and ethnic groups.

After this phase is successfully completed, the new models will be released for distribution. Monitoring the number of improved stoves produced and sold is easily quantifiable and can be obtained from regular HMG and contractor reports.

2. Evaluation

The project will adopt an on-going evaluation system to assess whether progress is leading towards achieving the project purpose and goal. On-going evaluation will analyze the information generated by the monitoring system. The HMG/USAID project team will review and draw conclusions from consultant reports and specific studies related to the project, and assess progress by physical verification, wherever possible, on a pre-determined time interval basis. On-going evaluation reports will provide important information to program managers and help them to direct the program and make adjustments as necessary.

The on-going evaluation of FDP will consist of the following activities:

a. Annual Progress review by senior HMG staff and USAID personnel;

b. First (mid-term) evaluation, by a joint team of HMG and USAID experts; and,

c. Second (final) evaluation, by a joint team of HMG and USAID experts.

The annual progress review by senior HMG staff and USAID personnel will take place in the form of a Project Coordinating Committee meeting. This Committee will consist of the Secretary, Ministry of Forests and Soil Conservation who will serve as a Chairperson, the Chief Planning Officer, the Director Generals MFSC Departments, representatives from the National Planning Commission, the Ministry of Finance Foreign Aid Coordination Division, the Senior Planning Advisor, and representatives from USAID. Representatives from other donor organizations may be requested to participate in certain elements of the Coordinating Committee deliberations. This Committee will review the progress made by the project and give directions for necessary action. It

will also approve the annual plan and budget for the following year.

The First (Mid-Term) Evaluation of the project will take place during the second year of project implementation by a joint HMG/USAID team. This evaluation team will conduct an in-depth assessment of project progress and make recommendations for modifications if/as necessary for the remainder of the project period.

The Second (Final) evaluation of the project will be conducted early, in the fifth year of implementation. A joint team of experts will be formed as in the case of the Mid-Term Evaluation. This evaluation, in addition to assessing how far the project has come in attaining the project goal and purpose, will assess the need for follow-up support and prepare a detailed analysis of the lessons learned during the project.

The Terms of Reference (TOR) for both evaluations will be drawn up jointly by HMG and USAID.

A project completion report will be prepared and submitted to USAID by the Planning Division of MFSC, covering all components of FDP, within one year after the termination of the project.

3. Audit

Based on analysis of project activities, it is concluded that the preferred method of financing and implementation under Agency guidelines is direct payment. A major portion of this project is technical assistance which will be carried out under an AID contract with a U.S. based contractor under the preferred method of financing. Audits of U.S. based contractors are normally conducted in the United States by the Defense Contract Audit Agency (DCAA) under the auspices of AID/IG.

It is anticipated that the RIG/A/Singapore will conduct a general project audit at least once during the life of the project. USAID/N will coordinate with the RIG/A/Singapore on determining the most appropriate timing for this audit. In addition, project funds amounting to $60,000 have been budgeted for two audits of project activities in years two and four, utilizing the services of either a U.S. or Asia based contract audit team, under the auspices of RIG/A/Singapore. An in-country team is not judged suitable for this work as Nepal presently does not have competent accounting firms affiliated with U.S.-based firms fully knowledgable in terms of U.S. accounting standards and procedures.

ANNEX A

His Majesty's Government

REC'D C&R APR. 3 4 1989

ACTION COPY

MINISTRY OF FINANCE
Bagdurbar,
KATHMANDU
NEPAL.

Ref.No:- F/Forest/100-54/

31st March 1989

Mr. David M. Wilson
Director
USAID/Nepal
Kathmandu

Dear Mr. Wilson,

Forestry Development Project (367-158)

Please refer to your letter dated 14 March 1989 concerning the above project.

In this connection, I am please to communicate to you that Project Component I (Forestry Policy and Planning) and Component III (Improved Stoves) of the proposed Project Identification Document of the above project are acceptable to HMG/N. Regarding component II of the above project (Forestry Management and Land Use Planning) HMG/N would request to AID in due course.

I should be grateful if you would do needful in this regard.

Regards,

Sincerely yours,

M B Dahal
Under Secretary

CC:
Ministry of Forest & Soil Conservation
Babar Mahal
Kathmandu

ACTION: AID-5 INFO DCM /E (5)

VZCZCRTO781EHU346 ANNEX B
RR RUEHKT
DE RUEHC #4108/01 0430252
ZNR UUUUU ZZH
R 120246Z FEB 88
FM SECSTATE WASHDC
TO AMEMBASSY KATHMANDU 2847
BT
UNCLAS SECTION 01 OF 04 STATE 044108

LOG: 071
12 FEB 88
CN: 04676
CHRG: AID
DIST: AID

ACTION COPY

AIDAC

E.O. 12356: N/A
TAGS: N/A
SUBJECT: FORESTRY DEVELOPMENT PROJECT (367-0158)
RESULTS OF ANPAC REVIEW

1. SUMMARY: THE PID FOR THE SUBJECT PROJECT WAS REVIEWED BY THE PRC ON JANUARY 5 AND BY THE ANPAC ON JANUARY 20, 1988. REVIEWS CONCLUDED THAT AID'S ROLE IN THE OVERALL MULTI DONOR PROGRAM, AND THE EXTENT OF CONCRETE STEPS MANIFESTING GON COMMITMENT TO POLICY, REGULATORY AND LEGISLATIVE REFORMS NECESSARY FOR THE SUCCESS OF THE PROGRAM WERE NOT SUFFICIENTLY EXPLORED IN PID. HOWEVER, MISSION REPS WERE HELPFUL IN AT LEAST PARTIALLY CLARIFYING THESE MATTERS. THE PID WAS APPROVED AND THE MISSION DIRECTOR IS AUTHORIZED TO APPROVE THE PP. HOWEVER, IT WAS DETERMINED THAT CLEAR BENCHMARKS OR TESTS OF THE READINESS OF THE MULTI-DONOR FORESTRY PROGRAM AND GON COMMITMENT SHOULD BE MET BEFORE PROJECT IS AUTHORIZED BY MISSION. END SUMMARY.

2. REVIEWS EXPRESSED CONCERNS THAT THE PID DID NOT: (A) ADEQUATELY DESCRIBE THE POLICY CONTENT OF THE NEW FORESTRY PROGRAM OR THE ENVIRONMENT IN NEPAL TO PROVIDE A BASIS UPON WHICH JUDGEMENTS COULD BE MADE ABOUT THE PROBABILITY OF SUCCESSFUL ADOPTION AND IMPLEMENTATION OF FORESTRY SECTOR POLICY REFORM; (B) SUFFICIENTLY DESCRIBE THE OVERALL FORESTRY PROGRAM, INCLUDING THE BUREAUCRATIC PROCESS WHEREBY THE VARIOUS KEY ELEMENTS OF THE GON ACT ON THE FINDINGS AND RECOMMENDATIONS OF THE FORESTRY MASTER PLAN; (C) GIVE A CLEAR PICTURE OF THE PROCESS THE DONOR COMMUNITY WENT THROUGH IN IDENTIFYING COMPONENTS FOR FINANCING BY EACH DONOR; AND (D) PROVIDE SUFFICIENT INFORMATION ON WHY THE MISSION SELECTED THE ACTIVITIES IT DID FOR A.I.D. FINANCING.

3. DURING THE COURSE OF BOTH REVIEWS, MISSION REPRESENTATIVES TAYLOR AND MAXWELL DID PROVIDE SUFFICIENT INFORMATION TO CONVINCE AID/W THAT: (A) THE CONTENT OF THE NEW FORESTRY PROGRAM WAS TECHNICALLY SOUND, (B) THAT THE NEW GON POLICIES, IF ADOPTED AND IMPLEMENTED AT THE DISTRICT AND PANCHAYAT LEVEL, PROVIDE THE BASIS FOR SUCCESSFUL IMPLEMENTATION OF THE PROGRAM, AND (C) THE DONOR COOPERATION/COORDINATION TO DATE HAS

BEEN EXCEPTIONALLY GOOD. (TAYLOR AND MAXWELL ARE TO BE COMMENDED ON THEIR PRESENTATIONS OF THE PROJECT AND THEIR RESPONSIVENESS IN ADDRESSING OUR CONCERNS AND

4. MISSION REPS NOTED THAT THERE IS RISK THAT THE PROJECT WOULD NOT BE AUTHORIZED IF GON ADOPTION OF AND COMMITMENT TO CARRYING OUT KEY PROVISIONS OF THE FORESTRY MASTER PLAN IS NOT FORTHCOMING . THEY FURTHER NOTED THAT WHILE THERE IS REASONABLE EXPECTATION THAT THE PROJECT CAN BE FULLY DEVELOPED AND AUTHORIZED IN FY 88, THE MISSION IS UNDER NO PRESSURE TO DO SO. IT WOULD BE PREFERABLE TO ENSURE WITH OTHER DONOR PARTNERS THAT ALL CRITICAL ELEMENTS NECESSARY FOR PROJECT SUCCESS ARE IN PLACE BEFORE THE PROJECT IS AUTHORIZED.

5. THE ANPAC CONCLUDED THAT THE MISSION WAS COGNIZANT OF THE ISSUES TO BE RESOLVED AND OF THE REMAINING STEPS TO BE TAKEN BEFORE THE PROJECT IS AUTHORIZED. IT WAS DECIDED TO APPROVE THE PID AND TO DELEGATE TO THE MISSION DIRECTOR AUTHORITY TO APPROVE THE PP AND AUTHORIZE THE PROJECT. HOWEVER, BEFORE APPROVING THE PP AND AUTHORIZING THE PROJECT, THE MISSION DIRECTOR SHOULD SATISFY HIMSELF THAT EVENTS CRITICAL TO PROJECT SUCCESS HAVE OCCURRED OR SATISFACTORY PROGRESS HAS BEEN MADE, AND THAT THROUGH THE COMBINED EFFORTS OF ALL THE DONORS, THE NECESSARY INPUTS FOR PROGRAM SUCCESS WILL BE PROVIDED IN A TIMELY MANNER. THE THREE CRITICAL EVENTS THAT MUST OCCUR BEFORE THE PROJECT CAN BE AUTHORIZED ARE:

(A) GON MUST SUCCESSFULLY MEET THE WORLD BANK'S FIVE

CONDITIONS PRECEDENT FOR SENDING A FINAL FORESTRY III APPRAISAL TEAM.

- (B) GON MUST PRESENT THE DRAFT MASTER PLAN TO THE DONORS AND THE SIGNIFICANT ISSUES/CONCERNS RAISED BY THE DONORS DURING THE COURSE OF THE REVIEW OF THE PROPOSED MASTER PLAN SHOULD BE RESOLVED.

- (C) THE DONORS MUST DEVELOP A DECISION MATRIX THAT DEFINES THE ISSUES, HOW THEY WILL BE RESOLVED, AND THE ROLE OF EACH DONOR IN THE OVERALL PROGRAM.

AID/W ALSO RECOGNIZES THAT, IN THE PROCESS OF DEVELOPING THE PP, ANALYSIS AND EVOLVING EVENTS MAY RESULT IN A DETERMINATION THAT IN EXAMINING THE CRITICAL EVENTS LISTED BELOW, EITHER ADDITIONAL ELEMENTS MAY EMERGE THAT SHOULD BE ADDED OR SEVERAL MAY PROVE TO BE OVERTAKEN BY EVENTS OR PROVEN TO BE LESS CRITICAL THAN ORIGINALLY FORESEEN. THE MISSION IS CHARGED TO EXERCISE
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APPROPRIATE JUDGMENT IN THOSE CASES AND, WHERE YOU JUDGE A SIGNIFICANT CHANGE IS REQUIRED, TO ADVISE [illegible] OF YOUR CONCLUSIONS. IN ANY EVENT, THE PP SHOULD TREAT THE ELEMENTS BELOW IN APPROPRIATE DEPTH AND D[illegible].

6. FYI USAID/PAKISTAN HAS DEVELOPED WITH THE VARIOUS DONORS IN THE ENERGY SECTOR, A DECISION MATRIX TO ASSIST MANAGEMENT QUICKLY GRASP A SENSE OF THE ISSUES AND WHO WAS RESPONSIBLE FOR RESOLVING THEM AND IN WHAT TIME FRAME. SIMILARLY THE DECISION MATRIX WE HAVE IN MIND WOULD LIST THE TOPICS OUTLINED BELOW ALONG THE LEFT SIDE AND THEN HAVE FIVE COLUMN HEADING TO BE FILLED IN AS FOLLOWS: PROPOSED RESOLUTIONS, STATUS OF ACTIONS, FUTURE ACTIONS REQUIRED, BY WHOM, AND WHEN.

7. THE KEY ISSUES/TOPICS WITH SUGGESTED VERIFIABLE INDICATORS OF RESOLUTION WHICH SHOULD BE LISTED IN THE LEFT TWO COLUMNS OF THE DECISION MATRIX, ARE PROVIDED BELOW. WE HAVE ADAPTED THEM FROM A POLICY OVERVIEW PAPER PREPARED BY THE MISSION REP AT THE PID REVIEW. THERE MAY BE MORE ISSUES THAT THE MISSION OR ANOTHER DONOR MAY WANT TO ADD TO THE DECISION MATRIX OR SOME OF THESE MAY ALREADY BE RESOLVED BY THE TIME THE PP IS REVIEWED. THEY CONSTITUTE SPECIFIC POLICY/PROGRAM AREAS WHICH THE MISSION SHOULD ADDRESS DURING PP PREPARATION, WITH SATISFACTORY RESOLUTION OR SUFFICIENT PROGRESS MADE, AS APPROPRIATE, PRIOR TO AUTHORIZATION.

- (A) FORESTRY PLANNING AND INSTITUTIONAL DEVELOPMENT

1. ISSUE: WEAK PROGRAM PLANNING AND MONITORING CAPABILITIES AT THE NATIONAL AND LOCAL LEVELS. PROPOSED RESOLUTION: THE GON WILL PREPARE AN IMPLEMENTATION PLAN TO INSTITUTE, AT THE NATIONAL AND LOCAL LEVELS, THE POLICIES AND FORESTRY PROGRAM ADVOCATED BY USAID AND OTHER DONORS.

- 2. ISSUE: ADOPTION BY THE MFSC OF THE GON'S DECENTRALIZATION ACT. PROPOSED RESOLUTION: APPROPRIATE CHANGES IN LEGISLATION AND ADMINISTRATIVE REGULATIONS WILL BE MADE TO BRING FORESTRY RULES AND MFSC ADMINISTRATIVE PROCEDURES DIRECTLY IN LINE WITH PROVISIONS OF THE DECENTRALIZATION ACT.

- 3. ISSUE: MFSC LOCAL PERSONNEL HOLD POWER OF IMPRISONMENT WITHOUT APPEAL FOR VIOLATIONS OF FORESTRY REGULATIONS (E.G. CUTTING A TREE WITHOUT A PERMIT). PROPOSED RESOLUTION: TRANSFER OF JUDICIAL RESPONSIBILITY, PHASED-IN OVER TIME, FROM FORESTERS BACK TO THE JUDICIARY.

-- 4. ISSUE: INAPPROPRIATE TARGETS FOR COMMUNITY FORESTRY PROGRAM. PROPOSED RESOLUTION: THERE SHOULD BE A DEMONSTRATABLE SHIFT IN COMMUNITY FORESTRY PROGRAM TARGETS FROM TREE PLANTING TO LOCAL MANAGEMENT INDICES.

- 5. ISSUE: ILL-DEFINED ORGANIZATIONAL STRUCTURE FOR IMPLEMENTATION OF THE FORESTRY PROGRAM. PROPOSED

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RESOLUTION: THE GON WILL DEVELOP AN ORGANIZATIONAL STRUCTURE FOR THE IMPLEMENTATION OF THE PROJECT WHICH INCLUDES CLEAR, DETAILED JOB DESCRIPTIONS/DUTIES AND RESPONSIBILITIES OF STAFF AT BOTH LOCAL AND CENTRAL LEVELS, AS WELL AS LOCAL COMMUNITY RESPONSIBILITIES. Page - B-

-- 6. ISSUE: THE PRIVATE SECTOR HAS NOT BEEN SUFFICIENTLY INVOLVED IN THE GON'S FORESTRY PROGRAM. PROPOSED RESOLUTION: THE BASIC RECOMMENDATIONS OF USAID'S FORESTRY PRIVATE SECTOR STUDY HAVE BEEN CONSIDERED AND INCORPORATED INTO THE FORESTRY PROGRAM AND THE AID PROJECT AS APPROPRIATE.

(B) LAND MANAGEMENT

-- 1. ISSUE: LACK OF ADEQUATE MAPS OF THE FOREST LANDS. PROPOSED RESOLUTION: THE GON PROMULGATES SIMPLE, UNAMBIGUOUS PROCEDURES FOR FOREST SURVEY AND MAPPING, FOREST MANAGEMENT PLANNING AND THE TRANSFER OF MANAGEMENT RESPONSIBILITIES FROM THE MFSC TO LOCAL COMMUNITIES.

- 2. ISSUE: TRANSFER OF TITLES TO THE PANCHAYATS AND UTILIZATION COMMITTEES. PROPOSED RESOLUTION: CLEAR EVIDENCE OF PROGRESS TOWARDS THE GON PROVIDING LEGAL ENTITLEMENT OF THE FORESTS TO LOCAL PANCHAYATS AND UTILIZATION COMMITTEES. THE GON REMOVES THE CURRENT CEILINGS ON THE AREA OF PANCHAYAT FORESTS AND PANCHAYAT PROTECTED FORESTS THAT CAN BE HANDED OVER TO LOCAL COMMUNITIES.

- 3. ISSUE: OWNERSHIP AND UTILIZATION OF THE FORESTS BY PRIVATE INDIVIDUALS AND ENTITIES. PROPOSED RESOLUTION: THE GON WILL DRAFT AND INITIATE THE FORMAL PROCESS TO PROVIDE THE LEGAL AND ADMINISTRATIVE PROCEDURES FOR THE OWNERSHIP AND UTILIZATION OF TREES ON PRIVATELY OWNED LAND. THERE IS REASONABLE EVIDENCE THAT THE GON WILL CONTINUE TO ISSUE LEASES FOR PUBLIC FORESTS
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TO COMMERCIAL FOREST PRODUCTS INDUSTRIES. THE GON IS ACTIVELY ENCOURAGING PRIVATE SECTOR INVOLVEMENT IN INPUT SUPPLY AND FOREST PRODUCT UTILIZATION AND MARKETING.

- (C) FORESTRY FINANCE AND INVESTMENT

- 1. ISSUE: NEED FOR COMMUNITY RETENTION OF REVENUES FROM PANCHAYAT FORESTS. PROPOSED RESOLUTION: THE GON PASSES LEGISLATION AND/OR ADOPTS REGULATIONS ALLOWING THE RETENTION OF REVENUES FROM PANCHAYAT PROTECTED FORESTS AT THE LOCAL LEVEL.

-- 2. ISSUE: NEED FOR IMPROVED PROGRAM BUDGETING AND PROJECT MONITORING PROCEDURES: PROPOSED RESOLUTION: THE MFSC IMPLEMENTS PROGRAM BUDGETING AND PROJECT MONITORING PROCEDURES AT BOTH THE CENTRAL AND LOCAL LEVELS AS DEVELOPED BY THE MINISTRY OF FINANCE.

-- 3. ISSUE: NECESSARY EXPEDITIOUS TIMING OF BUDGETARY RELEASES: PROPOSED RESOLUTION: THE MINISTRY OF FINANCE REVISES BUDGET ADMINISTRATIVE PROCEDURES TO PERMIT EXPEDITIOUS RELEASE OF AT LEAST 25 PERCENT OF NEW FISCAL YEAR BUDGETS IN JULY/AUGUST SO THAT FIELD OPERATIONS CAN BE FULLY EXCUTED DURING THE MONSOON PLANTING SEASON.

8. IN ADDITION TO THE ABOVE POLICY/PROGRAMATIC ISSUES WHICH SHOULD BE INCORPORATED INTO THE PP APPROVAL DECISION MATRIX DESCRIBED ABOVE, THE PP SHOULD ALSO ADDRESS THE AID/W CONCERNS WHICH WERE DISCUSSED AT THE PID REVIEWS. THESE ARE:

A. FORESTRY PROGRAM/MASTER PLAN: THE PID DID 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. 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? HOW WILL FURTHER ASSISTANCE TO THE MINISTRY OF FORESTRY AT THE CENTRAL LEVEL SUPPORT AND ENSURE THE SMOOTH IMPLEMENTATION OF THE VITAL FIELD PROGRAMS?

B. POLICY FRAMEWORK: THE PP SHOULD PROVIDE AN ANALYSIS OF THE POLICY FRAMEWORK OF THE FORESTRY PROGRAM, AND THE LIKELIHOOD OF SUCCESSFUL IMPLEMENTATION OF THE KEY POLICIES IN THE FIELD. THIS SECTION OF THE PP SHOULD LEAD INTO THE PRESENTATION OF THE DECISION MATRIX AND NOT BE REDUNDENT TO IT.

C. PRIVATE ENTERPRISE/INCOME GENERATION: WE UNDERSTAND THE FORESTRY PROGRAM INCLUDES AN EMPHASIS ON PRIVATE SECTOR ENTITIES ASSOCIATED WITH THE FORESTRY SECTOR. SINCE THE PID DID NOT GO INTO ANY DETAIL ON THE CONTENT

OF THE MASTER PLAN AND OVERALL FORESTRY PROGRAM, 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 CENTRAL LEVEL OFFICES. THE PP SHOULD DISCUSS AND CLARIFY THE ROLE OF THE PRIVATE SECTOR IN THE OVERALL FORESTRY PROGRAM AND SPECIFY HOW A.I.D. WILL INTERFACE WITH THE PRIVATE SECTOR.

D. SOCIO-ECOMOMIC RESEARCH: IS ADDITIONAL SOCIO-ECONOMIC RESEARCH NEEDED IN THE FORESTRY AREA FOR FURTHER DEFINITION OR IMPLEMENTATION OF MASTER PLAN RECOMMENDATIONS? SHOULD A.I.D. SUPPORT IT UNDER THIS PROPOSAL, E.G., RESEARCH RELATED TO ECONOMIC RETURNS FROM CURRENT LAND USE PATTERNS? WHO SHOULD DO THE RESEARCH? WHAT IS THE POTENTIAL FOR INTEGRATING SUCH SOCIO-ECONOMIC RESEARCH WITH THE BIOLOGICAL RESEARCH PROGRAM FUNDED BY THE UK?

E. RECURRENT COSTS AND SUSTAINABILITY: THE PP SHOULD FULLY ADDRESS THE QUESTION OF RECURRENT COST FINANCING

BOTH DURING AND AFTER THE A.I.D. PROJECT, AS NOTED BY THE MISSION IN THE ISSUES SECTION OF THE PID.

F. DONOR COORDINATION: DONOR COORDINATION AND CONSENSUS BUILDING WILL BE IMPORTANT IN PUSHING ALONG POLICY REFORM/ADOPTION/IMPLEMENTATION, AND IN OPTIMIZING DONOR ASSISTANCE. THE PP SHOULD DISCUSS HOW THIS WILL BE ACHIEVED.

G. OVERGRAZING/RANGE MANAGEMENT: THE PID AND OTHER DONOR DOCUMENTATION AVAILABLE IN AID/W IS SILENT ON THIS VITAL CONCERN. MISSION REPS' ORAL RESPONSE DURING THE PID REVIEW THAT LOCAL CONTROL OVER THE FORESTS WILL BE

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RESULT IN BETTER MANAGEMENT OF GRAZING IS ONLY A PARTIAL ANSWER. THE PP SHOULD ADDRESS THIS TOPIC AND SHOW HOW THE OVERGRAZING PROBLEM WILL BE DEALT WITH IN OUR PLANNING AND PROJECT MONITORING ACTIVITIES BEYOND PURE RELIANCE ON THE LOCAL COMMUNITIES TO SOLVE THIS PROBLEM.

H. 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. THE ROLE OF THE PEACE CORPS SHOULD BE DISCUSSED AND DESCRIBED IN THE PP.

I. STOVE COMPONENT: GIVEN HISTORY ELSEWHERE, WHAT APPROACH WILL BE TAKEN TO ENSURE SUCCESSFUL COMMERCIALIZATION? WHAT LESSONS WERE LEARNED IN THE RAPTI COMPONENT FOR IMPROVED STOVES? HOW ARE THESE BEING INCORPORATED INTO THIS PROJECT?

J. 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.

K. BUDGET/COSTING: PROJECT COSTING IN THE PID NOT WELL SUPPORTED. THE PP WILL HAVE TO PROVIDE SUFFICIENT ANALYSIS BEFORE A DOLS 7.0 MILLION BUDGET CAN BE CONSIDERED ADEQUATE. FOR EXAMPLE, LONG TERM TECHNICAL ASSISTANCE AT DOLS 125,000 PER YEAR SEEMS TOO LOW, GIVEN LEVEL OF TA PROPOSED. PLEASE REVIEW THESE COSTS CLOSELY.

L. LESSONS LEARNED: PP SHOULD PROVIDE A DISCUSSION OF LESSONS LEARNED FROM PAST FORESTRY PROJECTS IN NEPAL AND RELEVANT EFFORTS UNDER RAPTI. WHY WILL THIS NEW APPROACH WORK BETTER THAN THOSE TRIED PREVIOUSLY?

M. EVALUATION: THE PID DOES NOT DISCUSS EVALUATION.

BECAUSE OF THE PROGRAM'S COMPREHENSIVE APPROACH AND MULTIDONOR 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. SHULTZ
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Forestry Development Project
PID APPROVAL MESSAGE AND RESPONSE TO ANPAC ISSUES

Project Paper Response to ANPAC Issues. (per 88 State 44108)

I. Three critical events that must occur before the project can be authorized: (Para.5)

a) HMG must successfully meet World Bank's five conditions precedent to appraisal of Forestry III.
STATUS: Appraisal Team fielded in November 1988. Project negotiations conducted in Washington April 1989. Project due to be signed in May.

b) HMG must present the draft Master Plan to the donors and the significant issues/concerns raised by donors during the review should be resolved.
STATUS: Forestry Master Plan review held May 19,1988 (see reporting cable 88 Kathmandu 3971). Very positive response to the draft documents from all major donors. Issues raised by donor representatives have been incorporated into the final Master Plan documents. A second presentation of the final documents to the donors initially scheduled for the end of March has been postponed until after the resolution of the current trade/transit impasse with India (target date: early June)

c) Develop a (forestry policy) decision matrix that defines remaining issues, how they will be resolved, and the role of each donor in the overall program.
STATUS: Forestry policy decision matrix prepared and included in the Project Paper (Figure 4). Donor interest in supporting the twelve programs of the Master Plan was solicited in the May 1988 review meeting. Results of these expressions of interest is presented in the Proceedings of the meeting as well as in Figure 1 of the Project Paper. The second Master Plan review meeting, scheduled for June 1989, is expected to further refine the role of each donor in overall Master Plan implementation.

II. Key issues/topics and verifiable indicators of resolution for the decision matrix.(Para.7)

The twelve issues noted in Para. 7 have been included in the Nepal Forestry Policy Matrix (Figure 4 in the Project Paper).

III. AID/W concerns discussed at the PID review to be addressed in the Project Paper. (Para.8)

a) Forestry program/Master Plan: The Master Plan strategy and concept has been fully developed following submission of the PID to AID/W in December,1987. This is outlined in Section II.B. of the Project Paper. For those interested in additional details, several Master Plan documents are particularly useful including the Executive Summary, the Main Report, and the Forestry Policy.

b) Policy framework: See Section II.B.1 of the Project Paper along with Figure 4 Nepal Forestry Policy Matrix. For those interestedin additional details, the Master Plan Forestry Policy document is particularly important. Changes in the policy environment are also described in the Technical Analysis (Appendix 1).

c) Private enterprise/income generation: See Section II.B.2. Additional details are available in the Master Plan documents.

d) Socio-economic research: With the falling out of the proposed third component of FDP (Forest landuse planning), USAID support for socio-economic research will be limited to the policy/planning work carried out under component I and the marketing and social acceptability studies carried out under component II. Master Plan Program No. 7: Forestry Research & Extension is to be funded primarily by ODA. This will include substantially increased doses of socio-economic research in addition to the biological research already supported by ODA. In addition, USAID will be supporting socio-economic research in forestry through the Institute of Forestry project (367-0154), through a grant to Winrock for the Policy Analysis in Agriculture and Related Resource Management project, and through F/FRED activities in Nepal linked to the Institute of Forestry, the Institute of Agriclutre & Animal Sciences, and the MFSC Department of Forest & Plant Research.

e) Recurrent costs and sustainability: See Section III.B. and Appendix 3.

f) Donor coordination: An active system of forestry sector donor coordination is already operational in Nepal. This has been noted at several points in the PP text. The donor coordination in forestry is part of a much larger, three tier system of HMG/donor and donor/donor coordination developed in Nepal under the aegis of the Ministry of Finance on the HMG side and UNDP and the World Bank on the donor side. See Section II.C. for a discussion of linkages between FDP and other donor forestry projects/programs.

g) Overgrazing/range management: There have been several important inititiatives in this area over the past year. UNDP/FAO is funding two projects (one national the other regional) on range and pasture management. ADB has funded an important Livestock Regulatory Review Study through its Secodn Livestock Development Project and is to fund a major Livestock Sector Study in Nepal. The issues associated with livestock/forestry interactions will be the subject of study under FDP component I as well as under the USAID grant to Winrock for Policy Analysis in Agriculture and Related Resource Management. At the same time, field programs in livestock and forestry are getting underway in the Rapti Development Project.

At the same time, there continue to be encouraging indications from various parts of Nepal that local control over forests is resulting in more careful management of grazing and that farmers

are increasingly turning to stall feeding to support improved breeds. To cite one example from the Nepal-Australia Forestry Project: "Another surprise, of equal importance, awaited us. There was a widespread belief that grazing land and plantations would soon come into conflict in terms of land allocation. This seemed emminently reasonable and we expected that, in a given panchayat, the area to be voluntarily allocated for new forests would be small and be planted in a very few years. Events proved this to be false. Panchayats planted more land, yesr after year, until relatively,little common land remained. This came about by an almost complete conversion of animal husbandry to stall-feeding, or rather tethered-feeding. Instead of buffalo, cattle and goats seeking their own food, fodder is now brought to them while tethered on terraces or in stalls for much of the day. Mahat et.al(1987) record that 241 out of a total of 323 animals in Thokarpa panchayat are now 'stall-fed' (in the sense of the previous sentence) for most of the year. On a visit to Phulbari panchayat in 1986, I was told that almost all farm animals were tethered. Three main reasons are given for this astonishing change. First, that the new forests produce more edible material than grazing land. Second, that it is easier and quicker to hand feed than to herd. Third, that manure is better placed for distribution onto agricultural land." (Griffith, 1988, p. 69)

h) Peace Corps involvement: See Section II.E.1.

i) Stove component: See Section II.D.2. a & b.

j) Women in development: A WID component is to be funded by UNDP/FAO under the HMG/World Bank Second Community Forestry Project (Hills). Gender issues in forestry will also be a topic of study and analysis under FDP component I.

k) Budget/costing: Experience with ongoing TA contracts in Nepal indicate a figure of $160,000 per person year. This figure has been used in the PP budget calculations.

l) Lessons learned: See Sections II.A and II.D.1.a & b.

m) Evaluation: See Section IV.F.

Annex C

Forestry Development Project: LOGICAL FRAMEWORK

FORESTRY DEVELOPMENT PROJECT (367-0158) LOGICAL FRAMEWORK MATRIX

GOAL	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes:	Measures of Goal Achievement:		Assumptions for achieving goal targets:
To increase the productivity and sustainability of forestry production systems in Nepal through the promulgation of better policies and improved public and private forest management.	1. The existence of improved policies and procedures for panchayat, user groups and private management of forests and nurseries.	1. IBRD, UNDP, ADB and USAID and HMG reports and legislation.	1. HMG will adopt new policies and procedures as recommended by the Forestry Master Plan.
	2. Panchayats, user groups and reports individual farmers begin systematic legal management of forests and associated lands, with advice and assistance of trained resource managers.	2. HMG and project surveys & special studies.	2. HMG's new procedures an policies foster increased interaction by resource managers with farmers and other community members.
	3. Significantly increased plantings of multipurpose trees by farmers and communities.	3. HMG and project reports surveys & special studies.	3. Legislation changed to insure local ownership and utilization of trees planted.

Annex C

Forestry Development Project: LOGICAL FRAMEWORK

FORESTRY DEVELOPMENT PROJECT (367-0158) LOGICAL FRAMEWORK MATRIX

PURPOSE	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
In conjunction with other multilateral bilateral donors, to and strengthen the institutional capacity implement the national forestry program contained in the Master Plan for the Forestry Sector.	A. Forest Policy & Planning		
	1. An expanded fully functioning planning Division within the MFSC.	1. Annual joint HMG/USAID assessments.	1. Draft Master Plan of the MFSC to plan and recommendations accepted and implemented.
	2. Analytical capability within the Planning Division strengthened.	2. Special studies, policy analyses, marketing studies etc.	2. Trained staff retained.
	3. Ministry of Finance/UNDP program budgeting system in place and operational in MFSC.	3. Final project evaluation.	3. Progress to date by Robert Nathan team under MOF/UNDP project continues.
	4. Planning Information System installed and operational in MFSC.	4. Final project evaluation.	4. Program budgeting authority passed from MOF to line Ministeries.
	B. Improved Stove Program		
	1. Establishment of a National Program within DOF/CFAD.	1. Annual joint HMG/USAID assessment.	1. Consensus achieved on institutional base for national stove program.
	2. New domestic & commercial stoves designed which meet criteria for high fuel efficiency low cost, user appeal and marketability.	2. Annual joint HMG/USAID assessment.	2. Stove design and testing skills strengthened and expanded.
	3. Strategies for market-based production & dissemination of proven models developed and tested.	3. Mid-project evaluation.	3. Appropriate stove models developed.
	4. Market-based stove production & dissemination systems operational.	4. Final project evaluation.	4. Pilot private-sector production & dissemination programs successful.

FORESTRY DEVELOPMENT PROJECT (367-0158) LOGICAL FRAMEWORK MATRIX

OUTPUTS	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
A. Forest Policy & Planning			
1. Policy development macro-planning unit staff recruited, trained & working.	1. Four people returned with MS in forest economics & planning (two with marketing emphasis).	1. Annual HMG/USAID assessments.	1. Qualified people can be recruited, trained & retained.
2. Project administration & programming unit staff recruited, trained & working.	2. Qualified people program budgeting & project planning analysis.	2. Staff given s.t. training in assessments.	can be recruited, trained & retained.
2. Annual HMG/USAID	2. Master Plan priorities clearly reflected in funding levels of MFSC programs.	2. Mid-project evaluation.	
3. Program budgeting staff trained and working.	3. Staff given s.t. training in program budgeting.	3. Annual HMG/USAID assessments.	3. Qualified people can be recruited, trained & retained.
4. MFSC staff trained & operating MIS.	4. All relevant staff at Ministry Department, Regional and District levels trained in MIS operations.	assessments.	4. Annual HMG/USAID
B. Improved Stove Program			
1. Stove design and testing underway.	1. 3 new designs available for pilot programs by year two, 6 by year three.	1. Annual HMG/USAID assessments.	1. Qualified people recruited & trained for testing program.
2. Private stove production systems developed.	2. 49,500 stoves produced by year five (I-500, II-4000, III-10000, IV-15000, V-20000).	2. Annual HMG/USAID assessments.	2. Stove production remains attractive for potters & metalsmiths.
3. Private sector marketing of proven models underway.	3. Same as above, with subsidies cut to zero by the end of year three.	3. Annual HMG/USAID assessments.	3. Strategy to eliminate subsidies accepted by HMG.

Annex C

Forestry Development Project: LOGICAL FRAMEWORK

FORESTRY DEVELOPMENT PROJECT (367-0158) LOGICAL FRAMEWORK MATRIX

INPUTS	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
1. Technical Assistance personnel.	1. 111 person months of long & short term technical assistance. Tentatively identified to include: Planning Advisor 60 Forest economist/ marketing specialist 24 Improved stove specialist 24 Stove marketing consultant 5 Unspecified consultants 10 ($ 1,680,000). Local consultants ($ 136,000) Local support costs ($ 227,000)	1. Project reports.	1. Contractors provide qualified, effective 2. HMG provides timely clearances and counterparts.
2. Training	2. Four MS programs (2-forest economics & planning, 2-forest economics/marketing) U.S. and third country short term training & study tours. In-country training at national, regional, district & sub-district levels. ($ 653,000).	2. Project reports.	2. Qualified participants receive relevant training.
3. Commodities	3. Computer and office equipment, communications (radio, phone), vehicles, supplies, stove testing equipment. ($ 448,000).	3. Project reports.	3. N/A.
4. Program Support Costs	4. Selected program support particularly for field operations & training elements of both components. Provided through the TA contractor. ($ 700,000).	4. Project reports.	4. N/A.
5. Evaluation & Audit	6.$ 190,000	6. Project reports.	6. N/A.
Subtotal	$ 4,034,000		
Contingency and inflation (5%)	$ 950,000		
TOTAL	$ 4,984,000		

ANNEX D
Participant Training Plan
(training months)

Components	Type of Training	HMG Entity	Participants	Year 1	Year 2	Year 3	Year 4	Year 5
A. LONG-TERM TRAINING.								
I	MSc. Fellowship-US forest economics/ planning	MFSC/PD	(2)	3	12	9*/3	12	9**
I	MSc. Fellowships (Asia) forest economics & planning	MFSC/PD	(2)	3	3	9*/3	12	9**
B. SHORT-TERM SPECIALIZED TRAINING (OVERSEAS)***								
I	Policy/Planning (6 weeks-3 months) (4 courses - US) (6 courses - Asia)	MFSC/PD & Depts.	(10)	2 Courses	2 Courses	2 Courses	2 Courses	2 Courses
C. REGIONAL STUDY TOURS***								
I	Regional Study Tour on Forestry Planning	MFSC/PD	(3)	6 weeks(1)	6 weeks(2)			
II	Study Tour on Improved Stoves	CFAD	(2)		6 weeks			
D. INTERNATIONAL MEETINGS*** (1/2 U.S., 1/2 Asia)								
I	Policy/Planning Related	MFSC/PD & Depts.	(14)	2 Trips	2 Trips	4 Trips	4 Trips	5 Trips
II	Improved Stoves Related	CFAD	(2)		2 Trips			

E. IN-COUNTRY TRAINING.

A budget of $100,00 has been included for in-country training ($50,000 for component I, $ 50,000 for component II). Details to be spelled out in prjoect operational plan.

Notes:
* first 2 participants complete degrees and return to Nepal
** second 2 participants complete degrees and return to Nepal
*** Indicative targets for budget purposes. Actual number of courses will depend on individual course cost.

Scopes of Work for Long-Term Technical Assistance Personnel

The project technical assistance contractor will provide approximately nine person years of long term technical assistance. The persons assigned to these positions will have the following duties and responsibilities. Detailed scopes of work will be prepared by the USAID Project Officer and HMG/MFSC Project Director prior to the solicitation of bids through a Request for Proposals (RFP). The Senior Planning Advisor and Forest Economist will provide follow-up support for positions currently funded by the ADB/FINNIDA Master Plan for the Forestry Sector Project. Now that the Master Plan has been prepared and approved, attention will focus on fully institutionalizing the planning functions, on moving from larger-scale nationwide planning to District and sub-District levels, and to the detailed planning and programming required for the implementation of the twelve programs of the Master Plan.

1. SENIOR PLANNING ADVISOR

The Senior Planning Advisor position will run for five years. It is expected that the first advisor will be recruited for a period of at least three years. He/she will work directly with the Chief, MFSC Planning Division and assist in strengthening all elements of the planning function as outlined in Section II. D. 1. As the job of the Senior Planning Advisor involves high-level work in the program and policy arenas, the individual selected will require great professional stature and extensive experience in advising foreign officials. In order to effectively work with MFSC and senior HMG staff, the Senior Planning Advisor must have broad vision, strong technical credentials and a working style that will be effective in Nepal's cultural context.

Qualifications for the Senior Planning Advisor will include:

* A masters degree or higher in forestry with specialization related to planning.
* At least 10 years of experience in forestry institutional development.
* Detailed familiarity with program budgeting and other computer-based planning and program formulation tools.
* Extensive experience with forestry project design, analysis and evaluation.
* Detailed familiarity with computerized planning/programming information systems.
* Proven capability in working overseas advising senior-level foreign officials.
* Working knowledge of South Asian language(s) highly desirable.

The Senior Planning Advisor's duties will include:

a. Coordinate FDP project activities as outlined in the project implementation plan with particular attention to:

*strengthening the MFSC Planning Division and the Ministry's planning system,
*institutionalization of planning functions,
*developing additional analytical capability,
*strengthening project planning, analysis and evaluation,
*developing MFSC program budgeting capabilities, and
*designing and implementing an MFSC planning/programming information system.

b. After assessing MFSC Planning Division staff skills and resources, develop and implement the project training and commodity procurement plans and program support for Component I.

c. Develop a system of benchmarks to monitor implementation of the Forestry Master Plan including: inputs, outputs and impacts.

d. Coordinate FDP inputs with those provided by other donors. Particularly close coordination will be required with other MFSC institution building projects (i.e. FINNIDA-supported work on resource information systems and monitoring & evaluation).

e. Carry out other duties identified during project implementation that are in consonance with the goal, purpose and objectives of FDP.

In addition, the Senior Planning Advisor will serve as Team Leader for the contractor team. As such, he/she will be responsible for:

f. Support, coordination and performance of the technical assistance team (long-term and short-term personnel as well as local consultants and subcontractors).

g. Support, coordination and performance of the other elements of the project to be carried out by the technical assistance contractor including participant training, commodity procurement and program support activities.

g. Develop with other members of the technical assistance team, and their HMG counterparts, a system to monitor and assess FDP project inputs, outputs and impacts.

2. FOREST ECONOMIST

The Forest Economist position is for two years and is designed to provide specialized support pending the return of MFSC staff from training in forestry economics and planning. The Forest Economist will work closely with the Senior Planning Advisor in strengthening the MFSC Planning Division.

Qualifications for the Forest Economist will include:

* A masters degree or higher in forest/resource economics. Special expertise/experience in marketing will be an advantage.
* At least 10 years of experience in forestry or related resource institutional development including work on program formulation, program budgeting and project design & analysis.
* Substantive experience in policy analytic work. Work on both macro and micro economic issues preferred.
* Detailed familiarity with computerized data analysis as well as computer hardware and software.
* Experience providing on the job training to counterparts.
* Proven capability working overseas advising high-level foreign officials desirable.
* Familiarity with South Asian language(s) desirable.

The Forest Economist's duties will include:

a. Strengthen the analytical capability of the MFSC Planning Division with particular attention to program formulation and project design & analysis.

b. Work with the Senior Planning Advisor and MFSC/PU and Departmental staff to operationalize an effective, Ministry-wide program budgeting system. Provide on the job training to MFSC and Departmental Planning staff as required.

c. Develop a system to refine and update economic data generated by the Master Plan project including the translation of nationwide and regional data to district and sub-district levels.

d. Develop a system of benchmarks to monitor the economic impacts of implementation of the Forestry Master Plan.

e. Actively assist in the formation and operationalization of the economic research working group and undertake work, in collaboration wth MFSC colleagues, on priority special studies in areas such as: cost/benefit analysis, forest product processing & marketing, and the income and employment generation aspects of forestry development. (Activity C-6)

f. Assist the Improved Stoves Advisor and program staff if/as required on the economic analysis of stove production and marketing.

g. Provide guidance and backstopping as appropriate for the four candidates selected for M.S. training in the U.S. in forest economics/planning.

3. IMPROVED STOVES ADVISOR

The Improved Stoves Advisor position will run for two years with the Advisor returning on a short-term basis in each of the

remaining three years of the project. Given the importance of the improved stove program, the wide-ranging changes required in the current mode of program implementation, the Improved Stoves Advisor will require strong technical qualifications, a proven track record in implementing a demand-driven, market-based program, and a working style that will be effective in Nepal's cultural context.

Qualifications for the Improved Stoves Advisor will include:

* A masters degree or higher in an improved-stove related field (forestry, physics, economics etc.).
* At least 10 years of experience in forestry or related resource management.
* At least 5 years of experience with improved stove programs including stove design & construction, field installation & monitoring, and overall program design and implementation.
* Previous experience with private sector production and marketing highly desirable.
* Proven capability in working overseas in remote areas.
* Working knowledge of South Asian language(s) highly desirable.

The Improved Stove Advisor's duties will include:

a. Coordinate overall implementation of the FDP improved stoves program as outlined in the project implementation plan including:

*development, testing, production and marketing of new stove models,
*cookstove promotion, including development of a dissemination strategy for each stove model, training and extension, and
*ongoing cookstove development.

b. Establish liaison with all ongoing improved stove programs in Nepal.

c. Working within the program framework of the Master Plan and the implementation of Master Plan Program No. 1 (Community & Private Forestry) through the Department of Forest's Community Forestry Development Division, establish liaison and effective working relationships with all major community forestry development field programs with initial priority emphasis on the WB/UNDP/FAO assisted programs in the Hills and Terai and with USAID's Rapti Development Project.

d. Develop and supervise contracts for the development and testing of new stove models.

e. Develop a system of benchmarks to monitor implementation of the improved stove program including: inputs, outputs and impacts.
f. Arrange and supervise project support activities for Component II (training, commodities, program support).

g. Work with the Senior Planning Advisor and the Forest Economist to assess the policy, planning and programming implications of experience gained under the improved stove program.

ANNEX F

PURCHASE OF KEROSENE AND GENERATION OF LOCAL CURRENCY COMPONENT

TECHNICAL, ECONOMIC AND IMPLEMENTATION ANALYSIS

FORESTRY DEVELOPMENT PROJECT
(367-0158)

USAID/Nepal
August 1989

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The Forestry Development Project (FDP) provides $3 million for purposes of funding local costs of implementing the Forestry Master Plan for which HMG does not have adequate funds due to the Trade and Transit crisis. These budget line items may or may not be related to the components of Master Plan implementation funded by the FDP (Improved Stoves and support for the Planning Division). Because of the direct, inverse relationship between declines in fuelwood usage rates and increased availability of kerosene in the urban centers, funds provided for this project element are to be generated through the importation of kerosene. As noted in the Project Paper, these funds are required on an "emergency" basis, i.e., this project element was designed subsequent to multidonor/HMG decisions on participation in Master Plan implementation. The provision of funds responds to what is perceived to be a situation temporary in nature resulting from Nepal's need to restructure the direction of trade given India's imposition of a de facto embargo on Nepal/India trade.

Within the context of A.I.D. policy, this "project element" constitutes sector assistance or, in other words, A.I.D. is providing non-project assistance in a project mode. Therefore, elements of Handbook 4 apply. There is a requirement for a determination that, for urgent or emergency reasons, a general transfer of resources is necessary to close serious resource gaps to meet security or other objectives in which the United States has a special interest.

This "project element" is, therefore, a separate, specialized activity subject to different rules and regulations and operating in a somewhat different timeframe than the two identified project components, Forestry Planning and Improved Stoves. It was decided clarity and conciseness as well as responsiveness to the various requirements would best be served by placing material required by all sections of the Project Paper relative to this project element in one Annex. Part I of this Annex provides the justification for making a determination that urgent or emergency reasons exist. Further, it provides the justification for selection of kerosene (responding to the requirement for a "basic market analysis") and describes the special U.S. interests that motivated a decision to provide this assistance. Part II of this Annex sets forth material related to the procurement of kerosene and generation of local currency resulting from the importation of kerosene. Included in this part is an "implementation practices analysis" and information responsive to the requirements of Handbook 4, Chapter V "Commodity Financing Procedures for Non-Project Assistance", which are deemed applicable according to Chapter I of that Handbook to grant funded projectized sector assistance. Part III of this Annex describes in detail the operation of the local currency Special Account generated as a result of importation of kerosene, including specification of monitoring, evaluation and auditing requirements. The provisions of this Annex are binding.

Part I. JUSTIFICATION OF THE PROJECT ELEMENT

A. The Trade and Transit Crisis

Nepal, historically, has been perhaps excessively dependent upon India as a source of imports for consumption (essential commodities such as sugar, salt and petroleum as well as "luxury" consumption items such as stationary, pots and pans, etc.), supplies for industries, and commodities supporting Nepal's development program. It is well recognized that officially recorded imports from India may reflect less than half of the actual imports. The general rule of thumb is that some sixty to seventy percent of all (recorded and unrecorded) imports into Nepal come from India.

India is also a very important market for Nepali exports, particularly primary products as well as semi-processed commodities (for example, match sticks and veneers for tea chest construction). Exploration of substitute markets could lead to some sales of the same products, but the general wisdom is that many of Nepal's exports into the Indian market occur as a result of location and that they would not be competitive in other markets. Additionally, many of Nepal's exports are only competitive in the Indian market because of the terms of preferential status accorded them under the now expired India/Nepal Trade Agreement.

The "trade and transit crisis" arose when India decided not to renew two Agreements, one covering Trade and the other Transit of goods from countries other than India through India. It was and still is a political rather than economically motivated crisis (those interested in the details of the situation from a political standpoint are directed to the files of the American Embassy). The economic impact was immediate and devastating, in large measure because of the abrupt need to restructure the direction of trade when such restructuring by its very nature requires considerable lead time.

As noted by the Minister of Finance, until the trade and transit crisis hit in March 1989, Nepal had experienced success in implementing the structural adjustment program begun in 1986. Working with the IBRD and the IMF (both entities supporting the structural adjustment program of Nepal), HMG evaluated the impact of the crisis and likely macroeconomic situation over the near term. There had been expectations of a real growth in Gross Domestic Product of 5.2% for the Nepali Fiscal Year ending mid-July 1989 (FY88-89). Preliminary estimates are that the level will now be on the order of 1.5%, with a negative growth rate of more than 1% expected for FY 89-90.

The balance of payments position originally was estimated to be on the order of a surplus of 1.8 billion Nepali Rupees (exchange rate 27.4 Nepali Rupee or NR to $1.00). Current estimates are for a very small one (perhaps 80 million NR) for FY88-89, with a negative balance of payments position on the order of 500 million NR expected for FY89-90, the current fiscal year. There was a "huge" capital outflow during the period April through the end of FY88-89 according to the IMF, one attributed to significant expansion in imports from countries other than India. Indian imports, of course, were confined almost exclusively to shipments prepaid prior to termination of the Treaties. The net result for FY88-89 is an estimate of total imports equal to the prior year level. There was a dramatic shortfall in exports. International reserves stood at $280 million at the end of FY88-89, sufficient for approximately five months of imports compared to previous levels on the order of seven months.

The cost to the economy of Nepal during the time period April through the end of the fiscal year in mid-July 1989 has been estimated by HMG to be some 2.7 billion NR in terms of lost value added. Nominal GDP for that fiscal year is estimated at 74.6 billion NR. Double digit inflation had been reduced to a single digit level prior to the crisis. Estimates now are that inflation will be significant during the current fiscal year with official estimates at somewhere around 12%. Industrial production, which normally averages 1,700 NR per month was forecast at 510 million for the month of July. Hardest hit were those industries that depended on petroleum products, coal, raw materials and spare parts coming from India. A significant number of the "modern" industries closed their doors; others simply reduced their level of operation. The loss in agriculture was estimated at 360 million NR, primarily a function of lost output in spring rice and spring maize. Hard hit were development projects supported by donors, particularly those dependent upon petroleum products not only for operation of the project but for monitoring, training and field work. Losses in the development of Nepal's road transport were, for example, quite significant. Two-thirds of those employed in road construction were laid off. Tourism was impacted significantly. Indian tourists, who dominate during the April to October season, stayed at home. There is also reason to suspect European tour managers who finalize arrangements during the spring for the fall tourist season may well have pulled out, given the uncertainities of the situation. USAID/Nepal described at length in cable form the impact of the crisis on various elements of the economy including the forestry sector and these cables (Kathmandu 3003, 3038, 3259, 3766, 3854, and 4035), contained in FDP Project Files, are incorporated by reference in this Annex.

The impact on budget execution was direct. HMG expended significant unexpected sums coping with the crisis, including such things as air shipment of petroleum products, providing incentives to exports, sending marketing missions to surrounding countries both to obtain essential commodities on an emergency basis as well as to seek out new markets for goods previously sent into the Indian market. Development expenditures were curtailed because of the unavailability of petroleum products and HMG's actions to impose an austerity mode for the fourth quarter of FY88-89. HMG estimates that actual FY88-89 expenditures were 15,260.7 million NR (5,765.2 million NR for regular budget expenditures and 9,495.5 for the development budget) compared to planned expenditures of 19,520.2 million NR (6,152.1 million NR regular budget and 13,368.1 million NR development budget). While it is true that HMG never expends the planned level, it is obvious that in terms of percentage of planned expenditures actually expended, FY88-89 is below average. Revenue losses from the cessation of trade with India were significant. Planned receipts were 9,300 million NR while estimated actual receipts are 7,540.7. This compares unfavorably to the prior year where actual receipts were 7,350.4 million NR while planned receipts were 7,355.7 million NR.

B. The Government's Response to the Crisis

The basic task of the government was one of minimizing short-term damage while developing contingency plans which were responsive to the crisis without undermining, more than necessary, longer term growth goals. HMG immediately imposed rationing of petroleum products, adopted measures to stimulate exports into countries other than India through provision of cash incentives to exports, a reduction in export taxes as well as liberalizing the Open General Licensing Schedule to include commodities heretofore restricted to India market sources. Measures were adopted to provide priority to essential activities (transportation of goods to the far west, certain priority development projects). Measures were adopted to offset a possible fall in the producer prices of wheat and oilseeds due to elimination of the Indian market. HMG formalized their activities to cope with the crisis by publicizing a Twenty-Two Point Economic Program which had as its objective the normalizing of the life of the people to the extent possible, with subobjectives aimed at sustaining agriculture production and farm income and shifting away from dependency on Indian supplies and towards self-sufficiency.

As a first stage in implementation of this policy, HMG reissued budget guidelines for the new fiscal year which defined an austerity approach. These guidelines were sector specific and provided for such things as halting all land purchase and building construction unless determined to be most

essential and eliminating investment in unproductive programs (those not aimed at production). Both the Minister's presentation to the Donors of the economic situation as well as the budget guidelines are incorporated by reference to this Annex although contained in project files.

In terms of the new budget adopted as a result of implementing the 22-Point Program and budget guidelines, it is clear that austerity has been enforced. Total planned expenditures for FY89-90 are estimated at 20,242 million NR which reflects a 3.7% increase over planned expenditures for the prior year. This compares to a 28.5% increase for the prior time period. The development budget is estimated to reflect a growth over the prior year planned expenditures of only 1.7% while the regular budget increase is estimated at 8.1% (prior year comparative data are 24.0% for the regular budget and 30.7% for the development budget). Revenue is estimated at 8,500.6 million NR for FY89-90 compared to 9,300 million NR for the prior year. Domestic financing of the budget is expected to increase as well as foreign loans (in part, reflecting an increase in non-project assistance levels).

It is the official position of HMG that while Nepal desires trade with India, Nepal can cope with a situation where there is no trade or one where trade is conducted under Most Favored Nation terms. Clearly, HMG demonstrated an ability to cope with the emergency requirements of the crisis and develop contingency plans. By July, these arrangement had resulted in sufficiency of supply of essential commodities as well as elimination of the rationing system for petroleum products for all parts of the country except the Far West Development Region. That region was virtually cut off because monsoon rains cut highway links and passage through India was not permitted. Further, HMG argued that the situation of austerity (with resource gaps demonstrated above both in fiscal and external accounts) was temporary. As the shift in the direction of trade already started is normalized, sustainability appears probable, albeit at perhaps lower levels than experienced prior to the crisis. Thus, HMG argues that for the first two years of movement towards a new equilibrium, austerity will be necessary. USAID/Nepal has been provided HMG's current macroeconomic forecast for the next five years (because of the sensitive nature of some of the material such as probable exchange rates, this document is not contained in Project Files). Review of that document by USAID/Nepal's economist indicates that there is no reason to doubt the temporary nature of the situation but only with the caveat that India does not impose additional measures.

C. Petroleum Acquisition, Distribution and Pricing

Nepal, historically, had relied upon India for their supply of petroleum products. Up until four years ago, Nepal "provided" crude oil to an Indian refinery and received the products therefrom or through exchange. Subsequently, the Nepal Oil Corporation (NOC, a state-owned enterprise with a monopoly until recently for petroleum imports) entered into a product exchange agreement with the Indian Oil Corporation (a state-owned enterprise) under the terms of which products desired by India were imported to India by Nepal in exchange for delivery of products from Indian refineries required by Nepal.

Realistically, Nepal did little more than issue the check. The Indian Oil Company instituted the process of supplier selection, negotiated contracts and performed all administrative work with respect to the import into India of petroleum products paid for by Nepal. The Nepal Oil Corporation operated exclusively to distribute petroleum products delivered to Nepal.

During FY88-89, a total of 224,290 kiloliters of petroleum products were imported according to NOC as follows:

	Total Imports	Avg Daily Cons
Gasoline	20,960	50
Diesel	85,380	225
Kerosene	76,810	200
Aviation Fuel	18,540	60
Boiler Fuels	13,200	100
Other Fuels	9,400	25
Total	224,290	660

It should be noted that HMG put petroleum products on the Open General License Schedule so that private firms could import. Import licenses have, in fact, been issued and there have been announcements in the paper about private trading firms having petroleum products for sale.

Use of petroleum products for FY88-89 has been estimated by NOC to be:

	Kathmandu	Rest of Nepal
Petrol		
Private Transportation	20%	5%
Commercial Transportation	30%	5%
Official Transportation	30%	10%
Agriculture Use	-	-

Diesel		
Commercial Transportation	20%	40%
Private Transportation	5%	-
Official Transportation	10%	5%
Agriculture Use	-	20%
Kerosene		
Heating/Cooking	50%	50%

Historically, the price of petroleum products in Nepal has been administratively set. When international prices fell a few years ago, HMG made a deliberate decision (and publicized that decision) that they would not lower the administrative price established for sales of petroleum products, capturing the windfall profit for the treasury. Costs of purchasing petroleum products in the aftermath of the crisis were higher than through the Indian Oil Corporation if for no other reason than emergency, spot purchases tend to be higher than longer-term supply arrangements. Current costs of procurement, according to NOC, are as follows:

	Gasoline	Diesel	Kerosene
	(Nepali Rupees per Kiloliter)		
CIF Calcutta	5,164.23	4,618.57	4,305.70
Road Transport to Nepal	1,138.50	1,035.00	1,035.00
Calcutta Port/Storage Costs	510.00	385.00	385.00

On July 15th, HMG increased prices for gasoline, diesel and kerosene and, at the same time, established different prices for different parts of the country to cover transportation costs. The following information demonstrates the costs involved and their relationship to the recently increased administered prices for petroleum product in Kathmandu Valley:

	Gasoline	Diesel	Kerosene
	(Nepali Rupee per kiloliter)		
Product cost incl taxes	10,664	6,192	3,980
Transportation	370	370	370
Distribution costs	1,611	783	1,293
Dealer's Commission	255	155	107
Total Cost	12,900	7,500	5,750
Administered Price	12,900	7,500	5,750

In terms of relative costs, the Nepal Electric Authority recently undertook a comparative study of electricity

costs versus kerosene for heating/cooking. Results published in the local newspaper August 8th indicate that a family using hydro-generated electricity for cooking spends 50-60% less than that of one using kerosene. Currently, some 240,000 families use electricity for cooking (which substitutes for some 10,000 liters of kerosene per day). To promote use of electricity (and, thus, save foreign exchange needed to buy kerosene), HMG is currently considering encouraging imports of electrical appliances such as kettles, rice cookers and stoves by lowering import duties and customs fees as well as the sales tax level.

With the cutoff of trade with India, perhaps the most important HMG priority was to obtain sufficient products to keep things running. The NOC rapidly established a procurement system which included, among other things, arranging suppliers of products, scheduling deliveries, arranging storage capacity at Calcutta Port and arranging for the shipment of petroleum through private truckers from Calcutta to Nepal. It is indeed worthy of note that HMG in a period of less than three months had acquired sufficient stocks in Nepal to permit an end to rationing.

Based upon an analysis of probable demand and the supply system, HMG had made a determination to supply petroleum products at the following levels during FY89-90 (which equals a monthly rate of 23,840 kiloliters):

	(kiloliters)
Gasoline	21,900
Diesel	113,150
Kerosene	116,070
Furnace Oil	9,855
Aviation Fuel	28,105
Total	289,080

Current storage facilities at Calcutta are sufficient for 30.472 kiloliters. Negotiations are underway for a second product storage facility of approximately the same capacity. Current storage capacity within Nepal is limited, 24,275 kiloliters in the Terai (border location) and 6,630 kiloliters in Kathmandu Valley. Plans are to construct an additional 38,000 metric ton capacity over the next year. HMG sees the need for a reserve requirement of 95,000 kiloliters of petroleum products. There are a total of 150 tanker trucks in Nepal, mostly of the 10,000-12,000 liter capacity type. Current transportation capacity (all contractor tank trucks) from Calcutta to Nepal is 3,920 kiloliters and capacity within Nepal is 2,100 kiloliters.

Discussions with NOC officials about their ability to procure petroleum and the compatibility of their system to U.S. standards led to a preliminary decision that a Host Country Contract would be possible. NOC is using a list of 17 "pre-qualified bidders" established on the basis of suppliers of product to the Indian Oil Corporation. Upon decision to procure petroleum products, NOC sends telexes to these firms and any others that appear likely setting forth the terms of the tender and soliciting interest. Subsequently, given responses to the initial query, a more detailed tender is sent to those interested which specifies terms and requests best offer. The selection of a supplier is made by NOC and ratified by the Ministry of Supplies, the Ministry responsible for NOC. A letter of commitment is issued by NOC and payment is made upon changeover of ownership which is deemed to occur when the oil is offloaded at Calcutta.

D. U.S. Interests

The strategic and political U.S. interests in Nepal are documented elsewhere. The development interest of the U.S. dates to 1951 when our assistance program began in Nepal. Of particular interest is the fostering of sound environmental policies and the promotion of the private sector in this economy which is overly-dominated by state-owned enterprises.

Consistent with these policy directions, USAID/Nepal has engaged over the past years both in direct assistance to the forestry sector and, specifically, in moving the design and development of the Forestry Sector Master Plan in appropriate directions. A great deal of time and effort has been directed to this end and, clearly, it is a case where the U.S. has successfully engaged in policy dialogue.

It has become apparent that implementation of the Forestry Master Plan is being severely jeopardized by unavailability of sufficient host country budgetary resources to fund activities for which HMG is responsible in the critical initial two years of Master Plan implementation. Furthermore, there has been an unanticipated, accelerated demand for fuelwood. The Minister of Finance noted in his May 30, 1989 briefing of donors that increased assistance to the development of the forestry sector was required. Further, he stated that "our forests, already under pressure from a growing population, have to cater to the sudden upsurge in firewood demand both from rural and urban areas owing to the shortage of kerosene. The resulting destruction of forests will undoubtedly have serious environmental consequences that extend beyond our national boundaries." Kathmandu 4733 (available in project files) describes at length the impact of the crisis on the forest sector. Planned expenditures for the Forestry sector development budget in FY89-90 are 638.6 million NR compared to

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planned expenditures in the prior fiscal year of 647.0 million NR; in prior years, there had been increases on the order of 15% to 16% each year. In terms of total budget (regular plus development), forecasted expenditures for the current year stand at 658.7 million NR compared to 664.4 million NR planned for the prior year.

The vast majority of Nepalis use fuelwood as a primary fuel for cooking and heating. It is the pressure on forests of this fuelwood demand that was instrumental in HMG adopting a Master Plan for the Forestry Sector which would bring about a supply/demand balance over time. In the urban areas and semi-urban areas, Nepalis have increasingly begun to use kerosene as a substitute for fuelwood. As noted previously, there is a direct and inverse relationship between the availability of kerosene and use of fuelwood in urban centers. It, therefore, is concluded that by increasing the supplies of kerosene in urban centers there will be a decline in fuelwood usage. Thus, there would be a direct impact on the forestry sector.

E. Policy Conditionality

As noted in the main text of the Project Paper, USAID was successful in promoting adoption of policies which were, in the U.S. view, both necessary to sound, rational and commercial exploitation of the forest resources of Nepal as well as desirable in terms of environmental policies and promotion of the private sector. These are contained in a document titled "Forest Policy" which is part of the Master Plan. Because of success in obtaining the adoption of "good" policies, it is neither desirable nor necessary to condition this non-project assistance on policy reform. The "reform" has already taken place. What is of primary concern is that there be implementation of the reforms already adopted. Particularly during this time of austerity, there is concern that some of the development programs under the Master Plan may be postponed or sidetracked to concentrate on what are perceived as the more essential programs. To avoid this possibility, this project assures that there will be funds available to implement those policy reforms contained in the Forest Policy that have been adopted which USAID supported, should HMG funds be insufficient. The disbursement mechanism for the local currency established will place USAID in the position of being able to assure funding is made available for such things as those elements of the Master PLan which directly promote the private sector. USAID/Nepal will review progress in implementation of the Forest Policy of the Master PLan prior to decisions being made on use of local currency generated under this project. This review may result in (a) identification of a development program that is not being adequately implemented because of lack of funds, in which case USAID would insist that

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the local currency funds generated by this project be used for that purpose or (b) suggest that no local currency could be used to support any proposed Development Program of the Master Plan until uch time as any obstacle perceived to exist (other than lack of funds) which inhibits implementation of the Forest Policy is removed.

It is true that there are macroeconomic policies which are, in the view of the U.S., not desirable. Clearly, the funds made available for this project element could be used not only to assure implementation of Forestry Sector policies through local currency but, additionally, aim at macroeconomic reform by conditionality applied to the foreign exchange element. It has been determined, however, that with the involvement of both the IMF and IBRD in macroeconomic reform, it would be inappropriate at this time for USAID to intervene in the process, particularly since we are not party to the on-going negotiations and have no knowledge of any possible gaps that might be supported by this project. Further, there is evidence to suggest that HMG is moving in the right policy direction, for example, restructuring the prices of petroleum products.

F. Other Donor Involvement

HMG has made a general appeal to Donors for assistance in this time of crisis. Specifically requested were increased support for the implementation of the Master Plan and foreign exchange financing of petroleum products. There are indications that the Asian Development Bank will provide a $27 million dollar loan for the purpose of post facto financing of the unusually high costs of petroleum product procurement during the fourth quarter of FY88-89, providing funds to enable HMG to acquire three months of petroleum products as a reserve, financing some 70 tankers for transport of petroleum products and financing construction of petroleum storage facilities. Additionally, it is understood that OPEC will provide $5 million to finance import of petroleum products.

Part II. PROCUREMENT OF KEROSENE

A. General Provisions

Generation of local currency funds to support local costs of implementing the Forestry Master Plan will take place by means of first financing the foreign exchange costs of importing kerosene. "Foreign exchange costs", for purposes of this project, are defined as all costs associated with the purchase of kerosene and its transport C.I.F. international border of Nepal. Such costs are anticipated to involve hard currency as well as Indian currency, the latter resulting from fees and other direct costs of offloading at Calcutta Port,

storage and transport by Indian registry vehicles to Nepal. HMG will be responsible for all costs associated with storage and distribution within Nepal of kerosene purchased under this project.

B. Procurement Procedures

The Ministry of Finance is the responsible HMG entity for procurement of kerosene. It is assumed that the MOF will execute this responsibility through the Ministry of Supplies which, in turn, will actually import the kerosene through the Nepal Oil Corporation.

The procurement of kerosene must be conducted in accordance with the applicable rules and regulations of A.I.D. contained primarily in Chapter 3 of Handbook 11, Procurement of Equipment and Materials. Given the probable volume involved, it is specifically provided that HMG may, at its option, combine kerosene procured under this project with HMG financed procurement in order to obtain economies of scale. Should this occur, however, the rules and regulations cited above must be followed for the entire purchase in order that that portion of it attributable to A.I.D. financing be deemed eligible. A.I.D. rules and regulations cited above, among other things, requires that there must be free and open competition for the procurement of kerosene. In addition, an advertisement must be placed in the A.I.D. Bulletin and the Commerce Business Daily, both publications designed to alert potential U.S. suppliers to opportunities available as a result of U.S. Government financing of equipment and materials. Issuance of the tender and any addenda as well as the final contract executed between HMG and a supplier must be approved by A.I.D. prior to issuance(s).

A.I.D. rules and regulations provide that certain restrictions apply to the source and origin of the crude oil used to refine the kerosene and the country in which the kerosene is actually refined. Appended to this Annex is a list of eligible countries from which the crude oil/refining of kerosene may be obtained. In like manner, there are restrictions that apply to the ocean transport of the kerosene. A.I.D. rules and regulations provide that where A.I.D. finances ocean shipping services, the vessels used for ocean transport must be deemed by A.I.D. to be registered in eligible countries. In addition, whether or not A.I.D. finances shipping costs, when A.I.D. finances commodities to be shipped, U.S. flag vessels must account for at least 50% of total tonnage shipped and 50% of shipping revenues generated in connection with the procurement. If, after consultation with HMG, it is mutually agreed that compliance with the provisions of A.I.D. rules and regulations noted above is not possible, A.I.D. will consider seeking a waiver to permit acquisition and

shipment from other sources. Notwithstanding the issuance of such a waiver, fifty percent of the kerosene must be shipped by U.S. Flag carriers unless A.I.D. determines that U.S. Flag carriers are not available.

Prior to execution of a contract to purchase kerosene, HMG will provide to A.I.D. an estimate of all foreign exchange costs involved which will serve as the basis for issuance of a Project Implementation Letter (PIL) authorizing the expenditures of such funds. The PIL will contain a specific statement to the effect that should actual costs exceed the estimated amount, HMG agrees to fund costs in excess of dollars three million associated with the purchase and transportation of kerosene to the Nepal border. Subsequent to the execution of the contract between HMG and a supplier, HMG at its option may (1) pay all foreign exchange costs associated with the import of the kerosene and seek reimbursement from A.I.D. upon presentation of appropriate documentation, (2) request A.I.D. to issue a Letter of Commitment to the vendor or (3) request A.I.D. to issue a Letter of Commitment to a Bank. Should one of the options involving issuance of a Letter of Commitment be selected, payment under the terms of the Letter of Commitment shall be made subsequent to offloading of the kerosene at the Indian Port or at such other point where ownership of the oil is transferred to HMG or pursuant to other arrangements mutually agreed to in the PIL.

C. Amount and Timing of Local Currency Deposits

HMG, within four months of offloading all or partial shipments of kerosene at the Indian Port, will deposit in a Special Account the equivalent of three million dollars in Nepali Rupees or such lesser amount as may be agreed upon should there be partial shipments. A.I.D. would, through issuance of a PIL, establish the amount of Nepali Rupees to be deposited in a Special Account.

D. Implementation Schedule

Grant Agreement Signed	8/89
Supplier Selected	11/89
Kerosene Delivered Indian Port	1/90
Local Currency Deposited	5/90

Part III. Local Currency

A. General Provisions

HMG will deposit the agreed upon amount of Nepali Rupees as specified in Part II (D) above in a "Special Account" in the name of the Ministry of Finance. This account will be identified as "Special Account Type B" for purposes of internal

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A.I.D. monitoring and reporting. Use of these funds will be governed by the provision contained in Part C below.

USAID/Nepal Office of the Controller has undertaken a review of the capacity of HMG to operate local currency Special Accounts and has made a determination that such capabilities exist.

B. Establishment of the Special Account

HMG and USAID/Nepal shall agree upon a mutually acceptable commercial bank operating in Nepal as the depository for the Special Account and type of commercial account to be established within four months of the date the Grant Agreement is signed. Every effort should be made under existing banking laws to arrange for an account which will bear interest but it is not a condition of operation that said account must be interest bearing, given the banking laws/regulations now applicable in Nepal. Said bank must have the capacity of generating monthly or quarterly statements of account, one copy of which must be sent to the USAID/Controller's Office quarterly. The statement of account must identify all funds in the account, interest accrued if applicable and withdrawals. Documents will be filed with the Bank chosen when the account is opened which establishes (a) that withdrawals may only be made upon presentation of a Project Implementation Letter signed both by the HMG Project Officer assigned and USAID/Nepal Project Officer assigned and (b) provide sample signatures of those HMG officials authorizes to sign checks. Only HMG officials will sign checks.

C. Use of the Funds

Within four months of the signing of the Grant Agreement, HMG and USAID/Nepal shall agree upon membership of the Local Currency Committee. Said Committee shall be vested with the responsibility to formally recommend to USAID/Nepal proposed withdrawals from the Special Account for agreed upon uses. Membership shall include the USAID/Nepal Project Officer, the HMG Project Officer, a representative of the Ministry of Finance and such other members as may be mutually agreed upon. This Committee will meet on a trimester basis or at other intervals by mutual agreement. HMG will present to the Committee proposals for consideration. Said proposals will identify, at a minimum, the specific Development Programs of the Master Plan to be provided funds, the nature of activities funded under specified Development Programs, the amounts required, and the timeframe for expenditure. Records shall be maintained of each meeting which record the discussion of agenda items and decisions made and to which are attached copies of HMG proposals, said records to be included in USAID/Nepal Project Files. Subsequent to presentation to

USAID/Nepal of the Committee's recommendations, USAID/Nepal will prepare a Project Implementation Letter authorizing withdrawal. HMG agrees that should funds authorized for withdrawal not be expended by HMG for the purposes authorized, HMG will undertake to reimburse the Special Account for the amount used for unauthorized purposes.

Prior to convening of the Committee, the USAID/Nepal Project Committee will undertake a review of the implementation of the Forest Policy of the Master Plan to the end of establishing whether adequate progress has been made. If, in the view of the Project Committee, there are areas where insufficient progress is observable, the Project Officer will have responsibility for undertaking discussions with HMG to determine the probable causes of lack of progress. The Project Committee will then determine whether there is reason to suggest the need for discussions at the Local Currency Committee and is vested with the responsibility of assuring that the release of Funds is appropriate given policy progress and so documenting the situation for the Project Files. Should the need for policy conditionality arise, in the view of the Project Committee, the Project Committee will make such recommendation to Mission Management.

D. Monitoring Responsibilities

HMG has responsibilities for keeping detailed records as a basis for accounting for and reporting on approved expenditures and submitting periodic reports to USAID/Nepal which reflect the financial status of activities and such other specifically required operating information necessary to meet A.I.D. regulations.

USAID/Nepal will, in accordance with the principles and procedures of the A.I.D. foreign currency accounting system, maintain self-balancing general ledger accounts for counterparts fund to provide control of deposits, withdrawals, and balances and source data for preparation of accurate and useful periodic A.I.D. reports. USAID/Nepal will maintain records which indicate amounts committed, approved for release, proposed for commitment and yet to be programmed.

USAID/Nepal's Office of the Controller is responsible for monitoring the deposit of counterpart funds generated pursuant to this program. Where periodic review and reconciliation of bank statements received from the depository in which the Account is established reveal discrepancies with prior reports, deficiency billings are to be issued by the Mission Controller.

A.I.D. tracking of local currency will cease at the point where disbursements are made from the Special Account and

are received by the appropriate HMG entity for application against agreed upon Master Plan Development Programs. HMG is responsible for assuring that funds authorized are properly used.

UNCLASSIFIED STATE 227378
ANNEX G

ACTION: AID-2 INFO AMB DCM PE

VZCZCKTC0S3EBU101
PP RUFEKT
DE RUEBC #7378 1992219
ZNR UUUUU ZZH
P 182216Z JUL 89
FM SECSTATE WASHDC
TO AMEMBASSY KATHMANDU PRIORITY 9445
BT MCN NOT UPDATED
UNCLAS STATE 227378

LOC: 131 280
19 JUL 89 0236
CN: 23753
CHRG: AID
DIST: AID

ACTION COPY

AIDAC

E.O. 12356: N/A
TAGS: N/A
SUBJECT: FORESTRY DEVELOPMENT PROJECT SECTOR GRANT COMPONENT (367-0158)

REF.(A) KATHMANDU 4722 (Waiver Request) 5593 (OIB) Info Amb.
(B) KATHMANDU 5362 ~~Amb~~ (LOU-AID/KM)

1. SUMMARY: ON JUNE 22, 1989, THE PRC REVIEWED USAID/KATHMANDU'S REQUEST FOR A DOLS 3.0 MILLION ADDITION TO THE FORESTRY DEVELOPMENT PROJECT. AA/ANE CONCURS IN INCREASED LOP AND AUTHORIZATION LEVEL OF PROJECT FROM DOL 5 MILLION TO DOL 8 MILLION WITH OBLIGATION OF ADDITIONAL DOL 3 MILLION THIS FY SUBJECT TO AVAILABILITY OF FUNDS. FOLLOWING IS GUIDANCE MISSION SHOULD CONSIDER IN DESIGNING THIS COMPONENT OF PROJECT. IMPLEMENTATION ISSUES (ESPECIALLY DOLLAR AND LOCAL CURRENCY QUESTIONS) WILL BE SUBJECT OF A SEPTEL.

2. FOR THE RECORD, WE ARE SOMEWHAT SURPRISED BY REF B. THERE HAS BEEN SUBSTANTIVE AGREEMENT ON THE DESIRABILITY OF PROVIDING ADDITIONAL FUNDS FOR KEROSENE FOR SOME TIME. HOWEVER THERE WAS NO CERTAINTY THAT 3.0 MILLION DOLLARS IN DEOB FUNDS FROM THE REQUISITE APPROPRIATION ACCOUNT WOULD BE AVAILABLE FOR REOBLIGATION IN NEPAL UNTIL THIS PAST WEEK. AA/ANE IS PLEASED THAT NECESSARY FUNDING HAS BEEN LOCATED TO HELP NEPAL AT THIS CRITICAL POINT.

3. AS A SECTOR GRANT, THIS COMPONENT SHOULD BE DIRECTLY RELATED TO POLICY INITIATIVES NEEDED TO SUCCESSFULLY IMPLEMENT THE MASTER PLAN. MISSION REPRESENTATIVES FULLY AGREED WITH PRC INTEREST IN GETTING MAXIMUM LEVERAGE FOR FOR THE DOL 3 MILLION INCLUDING THE REVERSAL OR FORESTALLING OF DISTORTING POLICY MEASURES ADOPTED IN RESPONSE TO THE TRADE AND TRANSIT CRISES. WE SUPPORT MISSIONS INTENTION TO USE YOUR FORMAL BUDGET REVIEW MEETINGS WITH THE GON AS THE FORA TO PURSUE ONGOING POLICY DIALOGUE EFFORT FOR THIS SECTOR. PP SHOULD DISCUSS POLICY AGENDA AND PRESENT REALISTIC POLICY DEVELOPMENT/ADOPTION/IMPLEMENTATION BENCHMARKS AND MECHANISMS WHEREBY MISSION WILL PURSUE POLICY REFORM

INCOMING
ACTION OFFICE
B/GB AID
PPD
PPD/HR
PPD/PB
PPD/PROG
PPD/ECON
ARD
RFP
FM
IRMS
EXO
PER
TRV
GSO
PROC
RF

OFFICE INITIALS
DATE 7-20-89
MAIL
OTHER
LETTER
CABLE

4. BUREAU SUPPORTS YOUR INTENTION TO PROGRAM LOCAL CURRENCY EQUIVALENT OF DOLLARS IN THE IMPLEMENTATION OF THE FORESTRY MASTER PLAN. TO EXTENT POSSIBLE, BUREAU WOULD LIKE THESE LOCAL CURRENCIES TO SUPPORT INVESTMENT BUDGET COSTS WHERE INCREMENTAL FINANCIAL EFFECT OF OUR FUNDS WOULD APPEAR TO BE GREATEST; ALTHOUGH, THE KEY POINT IS THAT OUR SUPPORT LEVERAGE OVERALL GON AGENCY BUDGETS AND PROGRAMS IN THE FORESTRY SECTOR. IT IS IMPORTANT NOT TO PROJECTIZE THESE FUNDS UNLESS MISSION IS PREPARED TO ASSUME THE RESPONSIBILITY FOR MONITORING AND ACCOUNTABILITY. PP SHOULD INCLUDE ANALYSIS OF PRIORITY AREAS MISSION/GON SEE LOCAL CURRENCY GOING.

5. PRC DISCUSSED WHETHER SECTOR GRANT WOULD BE MOST APPROPRIATE AS A CASH DISBURSEMENT OR COMMODITY PROCUREMENT AS MISSION PROPOSES. BASED ON MISSION PREFERENCE TO HAVE FOREIGN EXCHANGE IMPACT ASAP IN RECOGNITION OF TRANSPORT CRISIS, BUREAU SUPPORTS COMMODITY PROCUREMENT OPTION WITH KEROSENE AS ATTRACTIVE COMMODITY TO BE FINANCED. ALTERNATIVELY, IF YOU CHOOSE CASH DISBURSEMENT PROVISION OF DOLLARS, GRANT WOULD BE TIED TO LOCAL CURRENCY NEEDS, I.E., DISBURSEMENTS WOULD BE OVER A TWO YEAR PERIOD.

6. DOLLAR FINANCING TO IMPORT CRITICALLY-NEEDED KEROSENE SEEM A REASONABLE USE OF DOLLAR GRANT RESOURCES. BUREAU ALSO AGREES THAT POLICY CHANGE RELATED TO THE GRANT SHOULD BE DIRECTED AT FORESTRY SECTOR POLICIES PER YOUR POLICY AGENDA AND NEED NOT INCLUDE POLICIES DIRECTLY ASSOCIATED WITH KEROSENE,

I.G., PRICING. PP SHOULD DISCUSS BASIC ECONOMICS OF KEROSENE AND HOW AID FINANCED KEROSENE FITS INTO THE PICTURE. PP SHOULD ALSO DISCUSS GENERAL PROCUREMENT PROCEDURE TO BE USED. WE ARE PREPARED TO ASSIST AS NEEDED IN YOUR PROCUREMENT PLANNING AND IMPLEMENTATION.

7. COMMODITY WAIVERS FOR CODE 935 SOURCE AND ORIGIN FOR KEROSENE WILL BE PROCESSED AND WE DO NOT EXPECT ANY PROBLEMS. RE SHIPPING NON-AVAILABILITY DETERMINATION, SER/OP/TRANS IS COMMUNICATING SEPARATELY WITH MISSION TO RESOLVE THIS QUESTION. WAIVER OF SECTION 110(A) ON HOST COUNTRY CONTRIBUTION WAS APPROVED BY AA/ANE JUNE 30, 1989.

8. CONGRESSIONAL NOTIFICATION MUST BE SUBMITTED FOR ENTIRE PROJECT. BECAUSE CONGRESSIONAL NOTIFICATION MUST IDENTIFY SOURCE OF FUNDS, IT WILL BE PROCESSED FOR DOLS. 3 MILLION INCREASE IN FY 89 FUNDING UPON DETERMINATION AVAILABILITY OF FALLOUT FUNDS. IT HAS NOT BEEN SUBMITTED. MISSION WILL BE ADVISED WHEN NOTIFICATION CLEARS AND OBLIGATION MAY TAKE PLACE. BAKER
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ANNEX G

September 8, 1989

ACTION MEMORANDUM FOR THE MISSION ACTING DIRECTOR

FROM: Timm A. Harris, PPD/PD

THRU: Michael M. Calavan, PPD

SUBJECT: Waiver From Source/Origin Code 941 for Kerosene Procurement

Summary

Request for Kerosene Procurement Source/Origin Waiver from Geographic Code 941 (U.S. only) to Geographic Code 899 (Free World).

(a)	Cooperating Country:	Nepal
(b)	Authorizing Document:	Project Paper
(c)	Project:	Forestry Development (367-0158)
(d)	Nature of Funding:	Grant
(e)	Description of Goods:	Kerosene
(f)	Approximate Value:	$3,000,000 (Dollars three million)
(g)	Authorized Geographic Code:	941
(h)	Source of Goods Requested:	Code 899

Discussion

As an essential part of the Forestry Development Project (hereafter called the Project), the procurement of kerosene valued at $3,000,000 delivered to Nepal is included as an input. The Project constitutes AID's participation in a multi-donor program which will help implement the Nepal Forestry Master Plan. Recent adoption of the Forestry Master Plan by the Government of Nepal (GON) marks an end to programs which emphasized centralized government management of forest lands. Implementation of the Forestry Master Plan will reverse the current forest depletion and destruction through programs designed to: meet and sustain the requirements for fuelwood, fodder and water by maintaining a steady flow of natural nutrients and water from forest to farms; maintain a safe and wholesome natural environment; conserve ecosystems and genetic resources; and contribute to the growth of Nepal's economy.

It was, in many respects, the concerted action of USAID and donors that focussed GON attention on the need for such programs and the need to shift policy positions on ownership, utilization, management, and regulations. The fundamental challenge now lies in full implementation of the new policy agenda.

Based upon the GON adoption of the Forestry Master Plan, USAID is supporting this effort through the Project. The Project goal is to increase the productivity and sustainability of forestry production systems. The Project purposes are to strengthen the capacity of the Ministry of Forests and Soil Conservation to implement the Forestry Master Plan and to introduce improved stove usage nationwide. Specific project components are: to strengthen the capacity of the Ministry of Forests and Soil Conservation (MFSC) Planning Division, including to develop policy analysis capabilities, program budgeting, project planning and project analysis; to develop an improved stove program with the national Community Forestry Program, including to expand stove model development and to distribute them through private channels. Inputs consist of short and long-term technical assistance, training, local cost support, and certain commodities.

The major commodity under inputs is kerosene. The principal reason for including this component is to support Master Plan policy and program implementation. Local currency generated through sales of kerosene will be used to support policy change initiatives and their related programs. A secondary benefit from increased availability of kerosene, used for cooking and heating, will be to lessen the demand for fuelwood and the pressure on the nation's forests.

Justification of Waiver of the Source/Origin Requirements:

Nepal has just entered into a period of severe economic crisis. Key imports from India, including kerosene, have been halted. Other imports have been delayed. The impact has been very significant and stems from a reduction of domestic resources and hard currency. Also, the shortage of kerosene has led to greatly accelerated cutting of forests to supply fuelwood for cooking and heating. Prolonged reduction of forests will have serious environmental consequences.

As criteria on justifying a waiver of the requirement that all commodities purchased with AID funds be of Geographic Code 941 source and origin, Handbook 1B, Chapter 5, Section B 4.a (1) allows for a waiver when there is an "...emergency requirement for which non-AID funds are not available and the requirement can be met in time only from suppliers or areas not included in the authorized geographic code." The available petroleum market is non-national (not from one nation alone), but that petroleum products are intermingled and it is not possible to determine national origin.

Authority

The Mission Director has the authority, under "Delegation of Authority No. 652", dated September 1, 1986, to waive U.S. or 941 source and origin requirements to permit AID financing of goods and services in any country in Geographic Code 899.

The Circumstances for a waiver are consistent with the requirement stated above. The amount of the procurement is $3,000,000, below the Mission Director's authorized limit of $5,000,000.

Recommendation

I certify that the exclusion of procurement from Free World Countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the Foreign Assistance Program. I hereby approve the waiver requested herein pursuant to the Delegation of Authority No. 652, dated September 1, 1986 and Handbook 1B Section 2 F (2).

Approved: William Stacy Rhodes
William Stacy Rhodes
Acting Director

Disapproved: _____
William Stacy Rhodes
Acting Director

Date: Sept. 8, 1989

Clearance:

ARD:RThurston:(in draft)
PRC:AEisenberg:(in draft)
EXO:WWanamaker:(in draft)

PPD/PD:THarris:sdl:1816S:9/8/89

ANNEX H

STATUTORY CHECK LIST

PROJECT NO. 367-0158

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA Funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1.	FY 1989 Appropriations Act Sec. 578(b) Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?	No.
2.	FAA Sec. 481(h); FY 1989 Appropriations Act Sec. 578; 1988 Drug Act Secs. 4405-07. (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug-transit country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR)	No. N/A N/A

determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined or certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

3. 1986 Drug Act Section 2013; 1988 Drug Act Sec. 4404. (This section applies to the same categories of assistance subject to the restrictions of FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country? N/A

4.	FAA Section. 620(c). If assistance is to a government, is the government indebted to any U.S citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?	No.
5.	FAA Sec.620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	No.
6.	FAA Sec. 620(a), 620(f), 620D; FY 1989 Appropriations Act Secs. 512, 550, 592. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?	No.
7.	FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?	No.
8.	FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC?	No.

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9.	FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?	No.
10.	FAA Sec. 620(q); FY 1989 Appropriations Act Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1989 Appropriations Act appropriates funds?	No
11.	FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)	N/A
12.	FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	No.
13.	FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)	Current

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14.	FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?	No.
15.	FY 1989 Appropriations Act Sec. 568. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)?	No.
16.	ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?	No.
17.	FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?	No.
18.	FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)	No.
19.	FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device?	No.

20.	ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)	Nepal disassociated itself from the communique.
21.	FY 1989 Appropriations Act Sec. 527. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?	No.
22.	FY 1989 Appropriations Act Sec. 513. Has the duly elected Head of the Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?	Nepal has a constitutional monarchy and the King is the Head of the Government.
23.	FY 1989 Appropriations Act Sec. 540. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?	Yes.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria. No.

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

FY 1989 Appropriations Act Sec. 536. No.
Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortion as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

2. Economic Support Fund Country Criteria:

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvements in its human rights record that furnishing such assistance is in the U.S. national interest? N/A

FY 1989 Appropriations Act Sec. 578(d). N/A
Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking?

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to all projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE?	Yes.
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?	Yes, the checklist is attached hereto.

A. GENERAL CRITERIA FOR PROJECT

1.	FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. If money is sought to be obligated for an activity not previously justified to Congress, or for an amount previously justified to Congress, has Congress been properly notified?	Yes, before obligating funds, the Mission will obtain advice from AID/W regarding CN expiry.
2.	FAA Sec. 611(a)(1). Prior to an obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	(a) Yes, financial and other plans are outlined in the Project Paper (b) An illustrative budget is included in the PP
3.	FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?	N/A
4.	FAA Sec. 611(b); FY 1989 Appropriations Act Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)	N/A

5.	FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?	N/A
6.	FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is not so executed? Information and inconclusion whether assistance will encourage regional development programs.	Project is independent, but supports the national Forestry Master Plan, which in turn is also supported by other donors.
7.	FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	(a) Increase in production of wood articles and possible export could help expand international trade. (b) Project activities will foster private initiatives and competition. Management and control of woodlands will be privatized, under GON guidelines, as will be the improvement of forest lands. (c) Not directly. (d) The privatization of woodland management and improvements will lesson the GON responsibility and be competitively determined. (e) Certainly a related project objective is improvement in planning and management of agriculture and natural resources within the nation. (f) N/A
8.	FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including private trade channels and the services of U.S. private enterprise).	Contracting for technical assistance to the project will be let to a U.S. private firm in all probability and will utilize use of over 25% of the budgeted resources. A certain portion of the commodities will also be procured from U.S. source and origin.

9.	FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	The GON is expected to provide approximately 8% of the project costs, either in local currency, in kind or in staff. A waiver of the standard 25% contribution requirement was granted by the AA/ANE per State Any available local currency owned by the U.S. will be used to meet local cost, as appropriate.
10.	FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No. The U.S. does not own excess Nepal Rupees.
11.	FY 1989 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?	N/A
12.	FY 1989 Appropriations Act Sec. 549. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?	No.

13.	FAA Sec. 119(q)(4)-(6) & (10). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?	The GON Forestry Master Plan, supported by AID and other donors, is designed to help protect and improve forest land throughout the country. Policy objectives and training activities are designed to upgrade communal, private and national lands, as well as protect biological and ecological systems.
14.	FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?	N/A
15.	FY 1989 Appropriations Act. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?	Yes.
16.	FY 1989 Appropriations Act. Sec. 538. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements ~~of A.I.D., and is the PVO registered~~ with A.I.D.?	There will be considered requirements of the PVO if such an organization is used to assist with project implementation.
17.	FY 1989 Appropriations Act. Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained?	N/A

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18. State Authorization Sec. 139. (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

This will be done upon signing of any project agreement.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria:

a. FY 1989 Appropriations Act Sec. 548. (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?

Project will not directly contribute to increased exports, although the GON Forestry Master Plan does include increased production of wood products as an objectives. It is unlikely that any wood products or stoves produced as a consequence of the success of the Master Plan will be of a nature which would compete with any U.S. exports.

b. FAA Secs. 102(a), 111, 113, 281(a). Describe Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions;

(a) Project policy targets will lead in rural areas to increased income and productivity of the poorer segments of the population through improved use of natural resources and employment in new economic activities concerning wood lands and wood products.

(b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; (e) utilize and encourage regional cooperation by developing countries?	Cooperatives may grow out of the Master Plan activities, but this is not a primary objectives of the effort. (c) The project activities will, through certain policy measures and stove improvements, support the self-help measures integral to the Forestry Master Plan. (d) The major beneficiaries of many policy reform measures and the improved stove component are the women of Nepal. All training activities are fully open to women and require female participation. (e) Not applicable per se, although the program has the support of India and international organizations.
c. FAA Sec. 103, 103A, 104, 105, 106 120-21; FY 1989 Appropriations Act (Development Fund for Africa). Does the project fit the criteria for the source of funds (functional account) being used?	Yes, ARDN account criteria are met.
d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	Yes. The stove improvement component focusses directly on appropriate technology for cooking.
e. FAA Sec. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?	No. The requirement is being waived.

f.	FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?	Yes.
g.	FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.	Project is designed to address national needs and weaknesses in forest and natural resource management and utilization. Major components work to strenghten the local capacity to plan and utilize land and resources in the most effective, efficient manner. Project will help with policy formation and training of Nepalese for effective participation in the national Forest Master Plan.
h.	FY 1989 Appropriations Act Sec. 536. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?	No.
	Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to ceorce or provide any financial incentive to any person to undergo sterilizations?	No.
	Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	No.

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i.	FY 1989 Appropriations Act. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization?	No.
	If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?	N/A
j.	FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes.
k.	FY 1989 Appropriations Act. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?	Gray Amendment firms will be used to the fullest extent possible--the goal is 10 percent of LOP budget.
l.	FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to	Project fully incorporates the requirements of Reg. 16 as part of the policy reform guidelines and forestry use planning. An IEE was prepared for the PID and a negative determination approved, as the project involves planning, training, and testing wood stoves only.

colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest mangement; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forest and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k) utilize the resources and abilities of all relevant U.S. government agencies?

m. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b) take full account of the environmental impacts of the proposed activities on biological diversity?

The project will promote policies and plans which promote the best sustainable use of land and take into account the environmental impact of any proposed activities in the sector.

n. FAA 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas?	No.
o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?	The project will support through advice and technical assistance, only environmentally sound means of improving income for the rural poor.
p. FY 1989 Appropriations Act. If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in accordance with the policies contained in section 102 of the FAA;	N/A

(c) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demo- nstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) being used to help overcome short-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self- sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

q. ~~FY 1989 Appropriations Act Sec. 515.~~ If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified? N/A

2.	Development Assistance Project Criteria (Loans Only)	N/A
	a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.	N/A
	b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's ~~annual production during~~ the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?	N/A
	c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities.	N/A
3.	Economic Support Fund Project Criteria	N/A
	a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?	N/A
	b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes?	N/A
	c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?	N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes. Contracts will be advertised in the CBD and competitively let.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?	Waivers may be sought so that certain commodities may be procured from geographic code 935 countries.
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	Yes.
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	N/A
5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941, and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries)	N/A

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6. FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?	Section 901(b) will apply to shipping under the project.
7. FAA Sec. 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	Yes and yes.
8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?	Yes.
9. FY 1989 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?	Yes, such clauses will be incorporated into AID direct and host country contracts.
10. FY 1989 Appropriations Act Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?	Yes.
B. CONSTRUCTION	
1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used?	N/A

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N/A

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress? — N/A

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan, repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? — N/A

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N/A

3. FAA Sec. 620 (h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes.

4. Will arrangements preclude use of financing:

   a. FAA Sec.104(f); FY 1989 Appropriations Act Secs. 525, 536. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion? — 1) Yes. 2) Yes. 3) Yes. 4) Yes.

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b.	FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?	Yes.
c.	FAA Sec. 620(q). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?	Yes.
d.	~~FAA Sec. 660. To provide training,~~ advide, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?	Yes.
e.	FAA Sec. 662. For CIA activities?	Yes.
f.	FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?	Yes, non-U.S. vehicles may be purchased only within the parameters of blanket right-hand drive vehicle waiver or individual waivers processed case-by-case, as necessary.
g.	FY 1989 Appropriations Act Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?	Yes.
h.	FY 1989 Appropriations Act, Sec. 505. To pay U.N. assessments, arrearages or dues?	Yes.
i.	FY 1989 Appropriations Act, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?	Yes.
j.	FY 1989 Appropriations Act, Sec. 510. To finance the export of nuclear equipment, fuel, or technology?	Yes.

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k. FY 1989 Appropriations Act, Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — Yes.

l. FY 1989 Appropriations Act, Sec. 516; State Authorization Sec. 109. To be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? — Yes.

5. FY 1989 Appropriations Act Sec. 584 Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? — Yes.

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Annex I
Forestry Development Project
Nepal Forestry Project Matrix

Introduction:

The Nepal Forestry Project Matrix was prepared in December 1987 as an annex to the Project Identification Document. It represents the first known attempt to place all forestry activities underway in Nepal in a single matrix. It is expected that the matrix will be used as a starting point for assisting the MFSC Planning Division with its task of tracking forestry projects as well as revising projects if/as appropriate to fit within the program framework of the Master Plan. For additional details see the Master Plan documents and Carter, 1987.

FORESTRY PROJECTS IN NEPAL: AN INITIAL LISTING (1)

DONOR	PROJECT	FINANCING US $ EQUIV.	A. INSTITUTIONAL DEVELOPMENT: 1. RESEARCH: FSFDI	1. RESEARCH: IOF	1. RESEARCH: IRDSC	1. RESEARCH: OTHER	2. INCOUNTRY TRAINING: FSTMI	2. INCOUNTRY TRAINING: IOF	3. PLANNING/ADMINISTRATION MANAGEMENT: DISTRICT/FIELD LEVELS	3. PLANNING/ADMINISTRATION MANAGEMENT: OTHER	3. PLANNING/ADMINISTRATION MANAGEMENT: MINISTRY LEVEL	3. PLANNING/ADMINISTRATION MANAGEMENT: DEPARTMENT LEVEL	3. PLANNING/ADMINISTRATION MANAGEMENT: IOF	3. PLANNING/ADMINISTRATION MANAGEMENT: DESCHMI	3. PLANNING/ADMINISTRATION MANAGEMENT: LEVELI	3. PLANNING/ADMINISTRATION MANAGEMENT: REGIONAL LEVEL	B. FIELD PROGRAMS: DISTRICT FIELD LEVEL	B. FIELD PROGRAMS: COMMUNITY FORESTRY	B. FIELD PROGRAMS: NATIONAL FORESTS	B. FIELD PROGRAMS: FARM FORESTRY	B. FIELD PROGRAMS: SOIL CONS. MGMT.	B. FIELD PROGRAMS: WATERSHEDS	B. FIELD PROGRAMS: INST. PARKS/WILDLIFE	AREA OF EFFT
II. ONGOING PROJECT																								
World Bank	Forestry I - Hill Community Forestry	15000000	II				III	III	III			III					III	III				III		129 hill district
World Bank	Forestry II - Terai Community Forestry (w. IEC)	17885900	II				II	III	III		II	III					III	III	III	III	III	III		114 Terai district
World Bank	Pasang-Mewahol IRDP (w. UNDP)								III								III	III	III					12 districts
World Bank	Mahakali IRDP (w. UNDP)								III								III	III						
ADB	Hill Forest Development Project (w. FINNIDA)	17831900	II						III								III		III					14 districts
ADB	Sagarnath Forest Development Project	5843000							III										III					Bardiya district
ADB	Dhaulagiri Forestry Development Project	4157000							III										III					Three districts
ADB	Nepal Paper Industries Ltd.	32000000									III													Dhaulagiri
ADB	Master Plan for the Forestry Sector (w. FINNIDA, DSE, USAID, FAO)	1120000									III	III	III	III	III	II								Nationwide
ADB	Sagarmatha IRDP								III								III	III	III					13 districts
FAO	Master Plan for the Forestry Sector (w. ADB, FINNIDA, DSE, USAID)										III	III												Nationwide
UNDP/FAO	Community Forestry Development Project (w. NG-Forestry II)	2030000							III								III	III						129 hill district
UNDP/FAO	Chitwan Watershed & Wildlife Reserve Project (w. Norway)	1325197							III												III		II	Rapti valley
UNDP/FAO	Watershed Management & Conservation Education Project	2145000					III	III				III									III			Nationwide
UNDP	Sheep Production & Processing				II																			
UNDP/FAO	National Parks & Protected Areas Mgmt. Project	2583000				III		III					III										III	Nationwide
IFAD	Regional Wood Energy Project								III															Terai region
IFAD	Dwarf Bamboo Seedling Centre	125000			III				III															
ADB/UNDP	Community Soil Moisture Production of Grazing Land Project							III																
ADB/UNDP	UNDP Park & Environment Committee																							
ADB/UNDP	Dwarf Forest Development Project																					III		
USAID	Terai Community Forestry Project (w. World Bank)		II					III	III								III	III	III	III				Mt. Terai district
USAID	Kulekhani Watershed Project							III	III												III			Kulekhani valley
USAID	National Tree Seed Project (w. DFAM)	2000000	II					III																Nationwide
USAID	Cooperative Forestry Extension Program							III				III						III	III					Jhapa District
USAID	Resource Conservation & Utilization Project	20000000	II				III	III	III			III					III	III	II		III	III		Bhairwa, Mustang, Mustang
																								Mustang
World Bank	Hydro Development Project	7000000						III									III	III			III	II	II	Hydro Zone
																								75 districts
	SUB-TOTAL	122641597																						
[illegible]	Structure of Forestry Project	5[illegible]	III					III																Kathmandu, Makwanpur
[illegible]	Nepal Eucalyptus Plantation Project	2[illegible]	III			III			III										III					Dhulikhel, Sindhuli

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FORESTRY PROJECTS IN NEPAL: AN INITIAL LISTING (1)

			A. INSTITUTIONAL DEVELOPMENT														B. FIELD PROGRAMS							
				1. RESEARCH					2. INCENTIVE TRAINING		3. PLANNING/ORGANIZATION/MANAGEMENT													
	PROJECT	FUNDING US $ EQUIV.	FORESTRY	NON-FORESTRY	FORESTRY	NON-FORESTRY	DISTRICT/FIELD LEVEL	NATIONAL LEVEL	DISTRICT	NATIONAL LEVEL	DISTRICT/FIELD LEVEL	NATIONAL LEVEL	REGIONAL LEVEL	COMMUNITY FORESTRY	NATIONAL FORESTS	FARM REFORESTATION	SOIL CONS./WATERSHED MGMT.	IMPROVED STOVES	WILDLIFE	AREA COVERED
																				Fuelwood
	Forestry/Fuelwood Research and																			
	Development Project (Regional)																			Asia region
	Agricultural Research & Production																			
	Project																			Nationwide
	Interest Ag/Natural Resource Policy,																			
	Research & Training																			Nationwide
	National Conservation Strategy for																			
	Nepal (w. IUCN & CIDA)																			Nationwide
	Master Plan for the Forestry Sector																			
	(w. ADB, FINNIDA, DFID, FAO)																			Nationwide
	Nepal IN Forestry Research Project																			Nationwide
	Hardy Hills Rural Development Project																			14 districts
	Rosin & Fabricant Agricultural Centers																			Nationwide
	National Tree Seed Project (w. DED)																			Nationwide
	Master Plan for the Forestry Sector																			
	(w. ADB, FINNIDA, FAO, USAID)																			
	Integrated Hill Development Project																			10 districts
	Tinau Watershed Project																			Palpa
	Nepal/Australia Forestry Project																			12 districts
	Hill Forest Development Project																			
	(w. FDD)																			14 districts
	Master Plan for the Forestry Sector																			
	(w. ADB, DFID, FAO, USAID)																			Nationwide
	Integrated Watershed Mgmt. Project in																			
	Kaligandaki																			11 district
	Integrated Watershed Mgmt. Project in																			
	Pewa Tal																			11 district
	Nepal/Germany IFCP																			13 districts
	Water & Energy Resource Development																			
	Project																			Nationwide
	National Conservation Strategy for																			
	Nepal (w. IUCN & USAID)																			Nationwide
	Integrated Sur.w. Section -																			
	Conservation Survey																			Nationwide
	Dana Forestry Research Project																			
	Institute of Forestry Museum																			
	Information Center																			Pokhara
	Nepal Paper Mills Ltd.																			Birgunj area
	Community & Commercial Forestry Ltd.																			Kathmandu
	National Conservation Strategy for																			
	Nepal (w. IUCN & CIDA)																			Nationwide
	GRAND TOTAL																			
	Work with NGOs & agencies																			
	Other other resources																			Elsewhere

FORESTRY PROJECTS IN NEPAL: AN INITIAL LISTING (1)

			A. INSTITUTIONAL DEVELOPMENT															B. FIELD PROGRAMS						
			1. RESEARCH					2. INCOUNTRY TRAINING			3. PLANNING ADMINISTRATION MANAGEMENT													
	PROJECT	FUNDING US $ 000's	IFSPO	IDF	INTERDISCIPLINARY	IMPACTS	IDF	DISTRICT/ FIELD LEVEL	OTHER	PROVINCIAL LEVEL	DEPARTMENT LEVEL	DEPARTMENT LEVEL	NATIONAL LEVEL	REGIONAL LEVEL	DISTRICT FIELD	COMMUNITY EVEL	NATIONAL FORESTRY	NATIONAL FORESTS	FARM FORESTRY	SOIL CONS./ WS MGMT.	IMPROVED STOVES	NAT. PARKS/ WILDLIFE		AREA COVERED
[illegible]	Swiss Hill Dairy Project																							Rupa/Begnas Tal
[illegible]	Nepal Farmer Agroforestry Project (AFP)	199274																						
[illegible]	National Aid Nepal																							
[illegible]	Association for Research, Exploration and Aid Ltd.																							
[illegible]	Nepal Planning School of Nepal	800000																						
[illegible]	Royal Mahendra Trust for Nature Conservation																							
[illegible]	Lutheran World Service																							
[illegible]	Nepal Red Cross Society																							
[illegible]	Himalayan Trust	155181																						
[illegible]	Save the Children, USA																							
[illegible]	United Mission to Nepal																							
[illegible]	Various Missions																							
[illegible]	North Australian Coordination Committee																							
[illegible]	Nepal Grassroots Trust, Japan																							
	SUB TOTAL (ONGOING PROJECTS)	16720445																						
	II. APPROVED PROJECTS																							
[illegible]	Project on Basic Rural and Income Generating Activities	500000																						136 Hill districts
[illegible]	Forestry, III	30000000																						136 Hill districts
[illegible]	Community Forestry Development	2000000																						Nationwide
[illegible]	Forestry Development Project	7500000																						Nationwide
[illegible]	Integrated Forest Resource Development	350000																						Saptari, Siraha
[illegible]	Regional Watershed Management Project																							Asia region
[illegible]	New Zealand Sagarmatha National Park																							Sagarmatha Park
[illegible]	Australian Proj., Upper Pasts & Rivers																							
	SUB TOTAL (APPROVED PROJECTS)	20850000																						
	TOTAL	24570445																						

MASTER PLAN DEVELOPMENT PROGRAMS

Development Plan	Objectives	Components
1. Community Forestry	o reduce demand for forest produce	o establishment and management of Panchayat Forests in degraded areas
	o increase production of and access	o enrichment planting of degraded forests forests to forest produce and management of natural forests as Panchayat Protected Forests
		o promotion of private tree planting on farms through the distribution of free or subsidized seedlings
		o promotion of fuel-efficient stoves use by supporting research and development on and production and distribution of such stoves
2. Private Industrial and State Forestry	o promote and support the lease and management of forest land by private parties and industries for private, industrial, or commercial forestry use o conduct forest development and	o trial planting and where successful larger-scale establishment of energy, fodder, industrial timber, herbal, and agro-forestry plantation on degraded land enrichment planting and management of

		management operations under HMG to pilot test new development schemes and to complement community, private and industrial forestry	degraded forests o management of modely or fullystocked forests
3.	Medicinal and Aromatic Plants	o propagate medicinal and aromatic plants in plantation, enriched and managed forests and farms to increase their supply	o herbal farming demonstration and training centers development o integrating medicinal and aromatic plant cultivation in community, private and commercial plantations and farms
		o introduce proper collection methods based on sustained yield	o manufacture and marketing of crude and processed products including pharmaceuticals, ayurvedic medicines and essential oils
		o promote the processing of medicinal and aromatic plants for local use and export	o botanic surveys, research and development and genetic conservation
		o meet local demand for and increase trade in crude herbs, essential oils, plant extracts and herbal medicines	
4.	Forest-Based Industrial Development	o attain country self-sufficiency in forest products where economically feasible o earn foreign exchange through the export of high-value forest-based processed products	o rationalize the system for allocating and using timber and other raw materials o mocernize forest-based industries o develop marketing capabilities

		o contribute to development of rural and national economies through creating jobs and forest products trade	o carry out industrial plantation establishment and forest management o develop the Forest Products Development Board into an agency which can effectively backstop forest-based industries
5.	Soil Conservation Watershed Management	o mobilize communities for soil conservation o protect nationally important watershed	o integrate soil conservation with forest development through community, private, industrial, and state forestry o provide extension and communication on the need to check soil erosion in critical areas o provide technical and material assistance and leadership in mobilizing the community for soil conservation o practice integrated watershed management in nationally important watersheds
6.	National Parks and Wildlife Preserves	o protect special areas for their wildlife, ecosystem, and genetic resource value o manage areas for tourism o integrate the development of alternative sources of forest produce in adjacent areas to ease pressure on	o generate local and international support for conservation o integrate planning and development of protected as well as their adjacent areas o develop cost-effective protection systems for protected areas

		the protected areas	
7.	Forest Resources Information System and Management Planning	o develop a forest resource information system o develop a system for integrated forest resource planning at users district, regional and national levels	o develop and maintain a continuous system of forest resources survey and inventory o develop a official system of forest resource information storage and retrival o develop an integrated network of forest resource information generators and users o develop management planning capability at local and national levels
8.	Forestry Research and Development and Forestry Extension	o strengthen the research and development capabilities of the forestry sector o develop forestry extension and public information capabilities including an integrated system for technology dissemination to end-users in the sector	o strength research and development capabilities by integrating scattered research efforts, recruiting and training qualified research staff, establishing adequate facilities, building national and resional research networks, developing a research management system and setting up a prioritizing system for research studies o develop forestry tension and public information capabilities by organizing a forestry extension and public information office to train forestry field staff in extension and to disseminate information to end-users through vairous media
9.	Human Resource	o turn the forestry	o assess manpower and

	Development	staff into effective and productive resources for development	training needs o improve forestry education and training programs emphasizing in the cirricula the new role of forestry staff in development o develop a network of training centers o provide adequate training for staff, pay, job security and career opportunities
10.	Monitoring and Evaluation	institutionalize a monitoring and evaluation system to enable the collection of accurate and timely data concerning all operations and their processing and evaluation into information to guide the development process	o establish a monitoring and evaluation network with nodes in all operational and decision centers and two-way flows of information from and into each node in the network o develop all elements of the network including the specification of performance and impact data to be collected; data collection system; data processing, storage, and dissemination system; and, impact evaluation
11.	Institutional Reform	o restructure the Ministry of Forestry and Soil Conservation (draft reorganization plan developed)	o strengthen support for community-oriented development activities o integrate field operations to rationalize and economize them o integrate research and development operations to support priority field activities o separate regulatory

		and development functions emphasizing the latter
		o develop parastatals into private enterprise
12. Legal Reforms	o all existing forestry and forestry-related laws/ regulations be studied in-depth and integrated into a new forestry and soil conservation code (draft developed)	o eliminate conflicting provisions
		o introduce provisions that will effectively support people's participation in forest development, management and conservation
		o provide the legal basis for declaring, developing and managing forests and watersheds of national strategic importance national parks, wildlife preserve and botanic gardens

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Annex K

PROJECT TECHNICAL ASSISTANCE
(person-months)

Long-Term Expatriate Technical Assistance

COMPONENT/POSITION	YEARS 1	2	3	4	5	TOTAL
I Sr. Planning Advisor/COP	12	12	12	12	12	60
I Forest Economist	6	12	6	-	-	24
II Improved Stoves Advisor*	12	12	-	-	-	24
TOTAL	30	36	18	12	12	108
(Total in person-years	2.5	3	1.5	1	1	9)

* Advisor will return for follow-up - see short-term consultants plan.

Short-term Expatriate Technical Assistance

COMPONENT/POSITION	YEARS 1	2	3	4	5	TOTAL
II Stove Program Consultants*	1	1	1	1	1	5
I Unspecified Consultants	2	2	2	2	2	10
TOTAL	3	3	3	3	3	15

Annex K

LOCAL CONSULTANTS

Component Number	Task Number*	Activity Description	Person Months
I	- A-2	- job description review	9
I	- B-5	- program budgeting	4
I	- C-2	- operational studies	6
I	- C-4	- forestry institutions	2
I	- C-5	- training	2
I	- C-6	- economic working group	10
I	- D-4	- evaluations	6
I	- E-1	- information needs assessment	8
II	- A-3	- marketing studies	6
II	- B-1	- dissemin. strategy	6
II	- B-2	- training	6
II	- B-4	- consumer awareness	6

* see Section II D for details.

Annex K

ILLUSTRATIVE TRAINING PLAN

	Participants	Location
Long-Term Training		
MS Forest economics/planning (2 with marketing emphasis)	4	US
Short-Term Specialized Training		
Forest Policy & Planning (6 week-3 month courses)	10	US
Regional Study Tours		
Forestry Planning	3	Asia
Improved Stoves	2	Asia
Participation in International Meetings		
Policy/Planning Related	14	as available
Improved Stoves Related	2	as available

In-Country Training

Funds ($250,000) have been designated in the project budget to cover local in-country training to be arranged by the project contractor.

Annex K

ILLUSTRATIVE LIST OF COMMODITIES

Quantity	Commodity/ Component	Unit Cost	US$ Cost
Motor Vehicles*			
10	4-wheel drive, all terrain vehicles, right hand drive, diesel powered (I-6, II-4)	16,000	160,000
4	Trail motorbikes-rugged, all terrain, 125cc (II-4)	1,500	6,000
1	Mini-bus. 24 passengers, diesel powered (I)	24,000	
	Vehicle spare parts (30% total vehicle cost)		57,000
Technical Equipment			
	Micro-computers, software & peripherals, calculators (Component I)		75,500
	Stove testing equipment, field equipment, stove prod. materials (Component II)		25,000
Office Equipment			
	Computer software, photocopier, typewriters, office furniture, reference books & technical publications, office supplies & materials (Component I).		88,500
	Laptop computers, computer software and office equipment (Component II)		12,000
	TOTAL		448,000

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* 5 vehicles will be provided in year 1 and 5 replacement vehicles in year 4. It may also be decided that other forms of transportation are more appropriate (i.e., additional motorcycles, mountain bikes etc.).

Annex K

HOST COUNTRY PROJECT BUDGET

Category	(US $)
Staff costs (NRs. 7,000,000 @ 26.6)	263,000
Facilities Usage (NRs. 2,500,000 @ 26.6)	94,000
Training Costs (35 persons @ $ 1,000 each and local)	70,000
Operating Expenses (NRs. 5,000,000 @ 26.6)	188,000
Subtotal	615,000
Contingency and Inflation (est. 19% overall)	117,000
Total	732,000