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REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD

TO THE EXECUTIVE BOARD ON A PROPOSED FINANCIAL ASSISTANCE TO THE

KINGDOM OF NEPAL

FOR THE

LEASEHOLD FORESTRY AND LIVESTOCK PROGRAMME

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CURRENCY EQUIVALENTS

Currency unit	=	Nepalese rupee (NPR)
USD 1.00	=	NPR 74.0
NPR 1.00	=	USD 0.01351

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

AWPB	Annual Workplan and Budget
DFO	District Forest Office
DLS	Department of Livestock Services
DLSO	Department of Livestock Services Offices (district level)
DOF	Department of Forests
FAO	Food and Agriculture Organization of the United Nations
GP	Group Promoter
HLFFDP	Hills Leasehold Forestry and Forage Development Project
IE	Interim Evaluation
LFD	Leasehold Forestry Division
LFLP	Leasehold Forestry and Livestock Programme
NGO	Non-Governmental Organization
PRSP	Poverty Reduction Strategy Paper
RFSP	Rural Finance Service Provider
SMSP	Social Mobilization Service Provider
VAHW	Village Animal Health Worker
VDC	Village Development Committee
VFA	Village Finance Association
VLA	Village Livestock Assistant
WUPAP	Western Uplands Poverty Alleviation Project

GOVERNMENT OF THE KINGDOM OF NEPAL**Fiscal Year**

16 July–15 July

KINGDOM OF NEPAL

LEASEHOLD FORESTRY AND LIVESTOCK PROGRAMME

FINANCING SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Kingdom of Nepal
EXECUTING AGENCY:	Department of Forests of the Ministry of Forests and Soil Conservation
TOTAL PROGRAMME COST:	USD 12.77 million
AMOUNT OF IFAD LOAN:	SDR 7.15 million (equivalent to approximately USD 10.49 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
AMOUNT OF IFAD GRANT:	SDR 840 000 (equivalent to approximately USD 1.22 million)
CONTRIBUTION OF BORROWER:	USD 1.05 million
CONTRIBUTION OF BENEFICIARIES:	USD 14 000
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services

PROGRAMME BRIEF

Who are the programme beneficiaries? The programme area districts comprise approximately one million households with a total population of approximately 5.3 million (of which 48% or 480 000 households constitute IFAD target groups). It is expected that by the end of the programme period, some 44 300 households (man- and woman-headed) will have benefited. The programme's target group will consist of poor and food-insecure households living in the hills in areas adjacent to degraded forest. A Department for International Development-financed Sustainable Livelihood Analysis has identified three subgroups within this group, all of which include woman-headed households. In summary: (i) the "poorest" are food-secure for two to three months a year; (ii) the "poorer" are food-secure for four to five months a year; and (iii) the "poor" are food-secure for six to eight months a year. In view of the overall poverty of the programme area, the programme will adopt an inclusive approach to targeting.

Why are they poor? The high incidence of poverty in the mid-hills of Nepal is attributed to a number of factors. First, in considering the vulnerability context, the poor live in an area that is characterized by harsh terrain and a violent Maoist insurgency. The remoteness and poor communications of some of the districts, and the associated lack of services (health, emergency, etc.) further exacerbate vulnerability. Second, in considering the institutional, legal and policy framework that shapes the livelihoods of the poor, the formal government presence is limited because of the insurgency and the remoteness of the programme area districts, and while non-governmental organizations (NGOs) are present they have limited outreach. Third, in considering peoples' access to livelihood assets, the target group has limited access to the benefits of the resource base (in particular forestry and forage resources). They struggle to achieve subsistence requirements by cultivating food crops on holdings averaging less than 1 ha. The poor have limited access to savings and credit facilities, as NGOs have only reached a small number of rural households in the programme area districts. In considering physical capital, the most obvious indicator of underdevelopment is the lack of physical infrastructure, and the associated poor links with markets.

How will the target group benefit? To address the above livelihood constraints, the programme will seek to mitigate vulnerability; improve access to essential services and resources; support livelihood components (livestock and forestry); and support empowerment through mainstreaming gender. The target group will be reached through the following design approach: (i) to mitigate vulnerability, the programme has been designed to address the root causes of the insurgency (i.e. high social inequality and poverty) through enhancing access and control over natural resources for the poorest; (ii) to focus on the promotion of livestock products with market potential, the programme will provide access to savings and credit services at the village level; (iii) to supplement the poor outreach of formal extension services, the programme will recruit and train women group promoters and village livestock assistants to provide services to the target group; and (iv) to address strategic gender needs such as access to knowledge and technology, control over productive resources and generation of leadership and management skills.

How will the beneficiaries participate in the programme? Participatory development will be ensured as follows. Building on the success of the Hills Leasehold Forestry and Forage Development Project (as documented in an IFAD Interim Evaluation, 2003), the programme will support the creation of leasehold forestry groups, and build them up into village finance associations. Women group promoters will be hired to undertake social mobilization of the leasehold groups, and provide them with training in group management and village finance. Beneficiaries will participate in leasehold forestry groups; forest rehabilitation and management; a savings and loans programme through village finance associations; a goat distribution programme; and training by women group promoters, village livestock assistants and line-agency staff. They will also participate in the programme monitoring and impact assessment.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED FINANCIAL ASSISTANCE TO
THE KINGDOM OF NEPAL
FOR THE
LEASEHOLD FORESTRY AND LIVESTOCK PROGRAMME**

I submit the following Report and Recommendation on a proposed financial assistance to the Kingdom of Nepal, comprising a loan of SDR 7.15 million (equivalent to approximately USD 10.49 million) on highly concessional terms and a grant of SDR 840 000 (equivalent to approximately USD 1.22 million) to help finance the Leasehold Forestry and Livestock Programme. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. The financial assistance will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Nepal has an estimated population of 24.12 million and a population density of 169 persons/km². The economy has undergone considerable changes over the last ten years. Following adoption of a liberal market-oriented economic policy and a number of reforms, the gross domestic product (GDP) growth averaged 4.9% between 1990 and 2001. However, growth has stalled considerably in the past three years because of the security situation, political instability and little progress in effectively addressing the main constraints on social, economic and political development. Nepal remains one of the least developed countries in the world by all major indicators. The gross national income (GNI) per capita of USD 230 (2002) is one of the lowest in the world. The country's economy is characterized by a large agricultural sector and a small, but rapidly growing, informal urban economy. The agricultural sector employs around 65% of the economically active population, accounts for 41% of GDP (2002), and is the largest sector of the economy. Remittances play a major role as a source both of foreign exchange and of household income, particularly in the hill areas. Most households cultivate some land, but almost 70% of holdings are of less than one hectare. Further economic growth in Nepal will depend upon addressing long-standing social inequality; developing social and economic infrastructure; improving administrative and institutional performance; and, most important, bringing an end to the insurgency.

2. **Political and conflict situation.** Since 1996 the Government has had to contend with a Maoist insurgency. An estimated 9 000 people have been killed since the start of the insurgency, which began in western Nepal mainly in response to the lack of progress in addressing long-running social and economic problems, including high levels of poverty. The insurgency has become increasingly violent and widespread, and a state of emergency was declared in November 2001. The King of Nepal took executive power in October 2002, and since then two successive governments have failed to restore peace, law and order and hold elections. A truce in January 2003 led to negotiations between the Government and the Maoists. With the negotiations making no progress, the Maoists called off a seven-month ceasefire in August 2003 and relaunched their attacks. It is widely thought that neither side can win an outright military victory. An immediate political solution seems unlikely with the

¹ See Appendix I for additional information.

Maoists demanding that a constituent assembly be elected to write a new constitution. Daily life has frequently been disrupted by demonstrations and strikes called by the political parties and/or the Maoists. The banks and government agencies have withdrawn from many rural areas, while local elections have not been held. The Maoists continue to extort donations from people in the villages they control, and have begun declaring certain areas of Nepal as “autonomous”. A third prime minister was sworn into office in June 2004 and has since formed a coalition government that has supported his pledge to restart peace talks with the Maoists and to restore democracy.

3. A detailed analysis of the conflict situation and its potential impact on the programme has been undertaken in consultation with development partners, and a summary is included as Appendix VIII. At the Nepal Development Forum in June 2004, the major donors expressed their commitment to remain engaged in Nepal. It was considered that any disengagement at this stage would hurt the poor and the excluded disproportionately. Major United Nations Development Programme (UNDP)-financed projects (such as the Participatory District Development Programme and the Local Governance Programme), informed by “UN Basic Operating Guidelines”, have been able to continue operating in spite of the insurgency. IFAD-financed projects (including leasehold forestry activities) have also been able to continue operating. The programme implementation strategy builds on these experiences.

B. Lessons Learned from Previous IFAD Experience

4. This programme is Phase II of the Hills Leasehold Forestry and Forage Development Project (HLFFDP). Its design is therefore based on the conclusions and recommendations of an IFAD Interim Evaluation (IE) as documented in an Agreement at Completion Point. These conclusions are summarized below. The IE found that the transfer of productive land with degraded forests to the very poor on renewable 40-year leases can both reduce poverty and reforest the hills of Nepal. The IE recommended: (i) a technical focus on natural regeneration; an altitude focus below 2 000 m; (ii) an inclusive area targeting approach to reduce potential conflicts and facilitate service delivery; and (iii) a savings-based approach to rural financial services. The employment of women group promoters (GPs) to mobilize, support and train the leasehold groups was considered highly successful, especially in terms of securing gender impact. The cost per beneficiary of HLFFDP was high, reflecting the pilot experimental nature of the project with substantial technical assistance. IE recommendations to improve efficiency included: (i) reducing the implementing agencies from four to two; (ii) increasing the size of leasehold groups to 10-15 members; and (iii) adopting an inclusive approach to targeting by focusing on villages where the majority of the population is poor.

5. The IE found ongoing community forestry programmes to be successful, recognized their new focus on poverty, and acknowledged that when implemented in a coordinated manner at district level, leasehold and community forestry activities are complementary. The IE agreed with the Poverty Reduction Strategy Paper (PRSP) conclusion that there is a need for a separate leasehold forestry programme at national level because of its proven impact on poverty. The IE made a number of suggestions to ensure harmonization and minimize the administrative burden on the Government. The Leasehold Forestry and Livestock Programme (LFLP) will finance the Government’s ongoing leasehold forestry programme, and there will be no separate programme management unit. Coordination mechanisms that proved successful in HLFFDP will be strengthened. Where possible, district forest coordination committees and associated working groups will coordinate all forest-sector activities at district level, including community and leasehold programmes.

C. IFAD's Strategy for Collaboration with Nepal

6. **IFAD's strategic direction in Nepal.** Since 1978, IFAD has extended ten project loans to Nepal, totalling SDR 79.0 million, about USD 102.0 million, all on highly concessional terms. The IFAD Country Strategic Opportunities Paper (COSOP) for Nepal, approved in May 2000, outlined a strategy for expanding and building on the successful experiences of IFAD, other donors and non-governmental organizations (NGOs) in Nepal. This includes a long-term commitment to helping the poor by: (i) assisting in the self-empowerment of the most disadvantaged groups in the most impoverished regions and districts; and (ii) promoting sustainable economic growth by enabling communities to manage their natural resources in an efficient manner. Recognizing the need to address the root causes of the current insurgency, and in line with the COSOP, IFAD has been working in partnership with the Government on the policy and institutional changes needed to provide the poorest people with long-term security of tenure over natural resources, in particular through the leasehold forestry approach. This long-term policy partnership with the Government has recently yielded significant returns, with the adoption of a leasehold forestry policy in 2002, and the Government decision to scale up the HLFFDP into a national poverty programme.

7. **Nepal's policy for poverty eradication.** The key policy framework in Nepal is the PRSP, which the National Planning Commission has integrated into the Tenth Plan (2002/2007). The aim of the PRSP is to reduce the overall incidence of poverty from 38%, the level estimated at the end of the Ninth Plan (2001/2002), to 30% by 2006/2007. The PRSP/Tenth Plan has a four-pillar strategy: (i) supporting broad-based, high and sustainable economic growth; (ii) improving the quality and availability of social and economic services and infrastructure for rural communities; (iii) ensuring social and economic inclusion of the poor and marginalized, including through targeted programmes; and (iv) promoting good governance. The PRSP has identified the importance of developing the forestry sector, in particular community forestry and leasehold forestry programmes, for environmental conservation, watershed management and groundwater conservation as well as for creating income-generating opportunities for the poor. The PRSP notes that: "given its high success, the leasehold programmes will be further expanded". Other relevant policies for the programme are the Agriculture Perspective Plan (1995-2015), the Leasehold Forestry Policy (2002) and the Livestock Master Plan (1993-2013).

8. **The poverty eradication activities of other major donors.** Several bilateral donors are supporting forestry and related programmes in Nepal. The emphasis of donor support for the last 20 to 30 years has been on community forestry. The major current forestry donor programmes include: (i) the Danish International Development Assistance (DANIDA)-funded Natural Resources Management Sector Assistance Programme; (ii) the Department for International Development (DFID)-funded Nepal Livelihoods and Forestry Programme; (iii) the Nepal-Australia Community Resource Management and Livelihoods Development Project; (iv) the Swiss Agency for Development and Cooperation (SDC)-funded Nepal-Swiss Community Forestry Project; and (v) the Netherlands-supported Biodiversity Sector Programme. Financial and technical support for leasehold forestry has come from IFAD/the Food and Agriculture Organization of the United Nations (FAO)/The Netherlands (ten districts of HLFFDP), Denmark (Humla, Jumla, Bajang and Bajura) and the German Agency for Technical Cooperation (GTZ) (Lamjang). Donors active in the forestry sector coordinate at the national level through the Forestry Sector Coordination Committee and its subgroups. The LFLP was discussed at a number of subgroup meetings, seminars and workshops during inception, formulation and appraisal of the programme to ensure close coordination.

9. **Programme rationale.** There is a strong social, technical, institutional and economic rationale for IFAD to continue to support leasehold forestry, associated livestock activities and a savings-based approach to the provision of rural financial services in Nepal. Most important, there is widespread recognition of the need to counter one of the root causes of the insurgency, namely the high levels of inequality and poverty. The programme is designed to help address poverty and social inequity by

providing the poor with access to land on 40-year renewable leases. Second, the IE found that leasehold forestry is an effective way of both reducing poverty and reforesting the hills. FAO impact assessments support this conclusion. Third, the PRSP/Tenth Plan has designated leasehold forestry for the poor as a priority programme with the highest priority ranking (P1). The LFLP will assist the Government in financing this PRSP priority. Finally, both leasehold and community forestry approaches are appropriate, complementary and can be implemented and coordinated at district level within an overall district forestry management plan.

PART II – THE PROGRAMME

A. Programme Area and Target Group

10. The Government has initiated a national leasehold forestry programme in 27 districts covering the mid-hills of Nepal, and is currently financing leasehold activities with its own resources. IFAD will support the government programme in all of these districts. However, as the ongoing IFAD-financed Western Uplands Poverty-Alleviation Project (WUPAP) includes leasehold forestry in five districts, the Leasehold Forestry and Livestock Programme (LFLP) will target the remaining 22 districts. These are: Accham, Baitadi, Bhojpur, Chitwan, Dadeldhura, Dhading, Dolakha, Doti, Gorkha, Kavrepalanchok, Khotang, Lamjung, Makwanpur, Okhaldhunga, Panchthar, Pyuthan, Ramechhap, Salyan, Sindhuli, Sindhupalchok, Tanahu and Therathum. About 5.3 million people live in these 22 districts, of which a total of 2.55 million or 48% live below the poverty line. It is expected that by the end of the programme period, some 44 300 households (man- and woman- headed) will have directly benefited. The programme's target group will consist of poor and food- insecure households living in the hills in areas adjacent to degraded forest land. As recommended by the IE, in view of the overall poverty of the programme area, and in order to avoid conflict in targeted communities, the programme will adopt an inclusive approach to targeting.

B. Objectives and Scope

11. The overall goal of the eight-year LFLP is a sustained reduction in the poverty of the 44 300 poor households that are allocated leasehold forestry plots in 22 districts through increased production of forest products and livestock. The programme has four components: leasehold forestry and group formation; livestock development; rural financial services; and programme management and coordination. The objectives of the programme components are: (i) improved household forage and tree crop production from secure and sustainable management of leasehold plots; (ii) improved household production of small livestock (goats); (iii) viable microfinance institutions providing services to leaseholders; and (iv) the Government's capacity to implement leasehold forestry as a national poverty reduction programme in a gender-sensitive way.

C. Components

Leasehold Forestry and Group Formation

12. This component will have the following five sub-components: (i) district planning and coordination; (ii) group formation and forest allocation; (iii) social mobilization; (iv) land and forest development; and (v) forestry implementation support. The Department of Forests (DOF) will be responsible for managing this component through the District Forest Offices (DFOs).

13. **District planning and coordination** will include mapping and participatory planning exercises to prioritize village development committees (VDCs), areas, communities and sites for programme implementation. This process will involve a systematic analysis of forest and socio-economic data, prioritization and selection of priority sites where there are large areas of degraded forest with poor communities living close by. Regular coordination of the programme's forestry and livestock

activities will be undertaken both at district and field levels. The programme will finance: (i) the costs of maps; (ii) mapping and ranking of VDCs; and (iii) district-planning workshops and community and site identification. The maps produced will be made available to other forest management programmes, as they will also show the area under community forestry and the location of areas with a potential for community forestry. The programme will also finance: (i) the meetings of the District Programme Coordination Committee, which will coordinate and monitor programme activities in the district and ensure that these are coordinated with other forestry sector developments; and (ii) annual participatory impact monitoring. The District Coordination Working Group will coordinate the livestock and forestry activities in each district. Field-level coordination will occur at the level of the range post and involve the ranger, women group promoters (GPs) and village livestock assistants (VLAs) working with that cluster.

14. **Group formation and forest allocation** will include: (i) demarcation of the potential leasehold forest; (ii) identification and formation of approximately 3 300 new leasehold forestry groups; (iii) participatory preparation and periodic review of operational plans for the leasehold forest; and (iv) formal registration of groups and handing over of leases. Items to be financed are demarcation posts and their repair, equipment for GPs, measuring tapes and staff costs associated with group identification and formation, operational plan preparation and renewal, including the associated training.

15. **Social mobilization.** Women GPs recruited from among the target group, trained and supported by the programme, will be the main agents of social mobilization and for empowering women. The number of GPs required increases from 88 in the first programme year (PY1) to a maximum of 154 in PY3 to PY6. The number of leasehold groups per GP will be approximately 20. A GP will provide intensive support to a group for up to three years, after which occasional support may continue for a maximum of another two years. After the end of the programme period, the leasehold groups will no longer require the services of the GPs. GPs will receive social mobilization training, which will include intensive support during start-up and additional training every six months to gradually build up their capacity as they gain experience so that they can also pass on other simple advice to groups (e.g. savings and credit) and households (e.g. nutrition, mother and child health, hygiene and vegetable cultivation). Group capacity building by the GPs will cover decision-making procedures, meeting management and record-keeping, linking the groups to form village finance associations (VFAs). Each leasehold group will elect a chairperson, a secretary and a treasurer who will receive leadership, record and account-keeping training. Training on gender issues is foreseen at all levels, including on-site training of beneficiaries and training of GPs and district staff. The programme will finance the costs of hiring a social mobilization service provider (SMSP), including the costs of GP salaries and training, supervision (regional and national levels) and overheads, and the costs of issuing citizenship certificates.

16. **Land and forest development** will follow the prescriptions of the site-specific operational plan. Site management starts by ending free grazing and preventing bush fires. Plot development will include planting improved varieties of grasses and leguminous fodder/cover crops, multipurpose trees, etc., depending upon the priorities of the group and the suitability of the site. Farmer and staff training will also be provided. Staff training will include orientation training for forest guards, land development and conflict management training for livestock and forestry staff. Leasehold farmers (men and women) will receive onsite non-formal training to enable them to develop fully the leasehold forest and benefit from its productive capacity, and this will include at least one full day on gender awareness. Other non-formal training will include farmer study visits (within the district) and forest management training. Formal training for farmers will comprise one nursery management course per district per year. Leasehold forestry calendars will enable the groups to set dates for group meetings, savings and credit payments and for appointments with programme staff, while keeping track of the days of cultural and religious significance. The programme will finance the costs associated with the above activities (including establishment costs for small multipurpose nurseries

and soil conservation materials) as well as the costs of farmer and staff training and the provision of leasehold forestry calendars.

17. **Forestry implementation support.** The programme will finance the employment of incremental temporary staff at district level (recruited on contract) to help deliver the required services and effectively execute the programme. On average each programme district will require the services of two full-time additional rangers. The programme will finance two additional motorcycles for each of the 19 districts where motorcycles can be used, with an allowance for replacing 50% after five years. The programme will finance the costs of training for existing and additional staff to build up their capacity for the specific needs of the programme. All training will emphasize gender issues and will be repeated two to three times to allow for staff rotation. In addition, the programme will finance the operating costs incurred by the DFOs.

Livestock Development

18. Activities under this component can be grouped under three sub-components: (i) goat production development; (ii) livestock training and services; and (iii) livestock implementation support. The Department of Livestock Services (DLS) will have responsibility for managing this component with the District Livestock Services Offices (DLSO) implementing programme activities at district level.

19. **Goat production development.** To use fodder to boost the incomes of the leasehold groups, the programme will provide all eligible member households with two female goats. A buck will also be provided to qualifying leasehold groups. Eligibility criteria include, inter alia: regular savings by members; adequate supply of fodder from plots; and pledges to deposit, 18-24 months after receipt of the goat, NPR 1 000 (2004 prices) per goat in the recipient's name in the group savings account. The programme will finance the costs of the animals, including transport, the cost of vaccination and drenching and allowances for the VLAs and DLSO staff. In the following year, the programme will provide vaccination and drenching for the kids, with the DLSO providing the materials and the VLA receiving payment for the service from the farmer at a cost of NPR 4 per head. The programme will also provide appropriate seed and planting material (e.g. *Stylosanthus* seed, molasses grass seed and cuttings or slips of napier grass or broom grass) to help develop the leasehold plots. Finally, the programme will provide a package of vegetable seeds, in the first year of assistance, to help the leaseholders establish and/or improve their kitchen gardens as a way of increasing their household food security and improving their nutrition.

20. **Livestock training and services.** The programme will finance the selection, recruitment and training of VLAs. They will preferably be women selected by the community from the households of the group members. They will be trained to deliver simple extension messages to the leaseholders and to carry out simple animal health procedures. If the approach is successful, the VLAs will receive further training to become village animal health workers (VAHWs). Each VLA will provide services to approximately 20 leasehold groups. The VLAs will not receive a salary but will be paid for specific services including, inter alia, fees from the farmers covering the cost of the vaccine or medicine and the service provided and fees from training provided to farmers. VLAs will purchase drugs either from the DLSO service centres or sub-centres or from private suppliers at district level.

21. **Livestock implementation support.** The programme will provide some additional equipment for the DLSOs. It will also finance the operating costs incurred by DLSOs and will finance the employment on average of one additional livestock technician in each district for the duration of the programme (recruited on contract) and training for existing and additional staff. All training will emphasize gender issues and will be repeated two to three times during the programme period to allow for staff rotation.

Rural Financial Services

22. Building on the successful experience of savings and credit cooperatives under HLFFDP, the programme will finance the recruitment of a rural finance service provider (RFSP) to support savings and credit activities of approximately 3 300 new individual leasehold groups and subsequently those of the approximately 330 larger VFAs formed by nine to ten leasehold groups within a cluster. The leasehold groups and the VFAs will provide savings and credit services to their members.

23. **Group savings and credit activities.** Leasehold groups will have savings and loan activities. These groups of 5 to 15 members will set their own savings and credit guidelines, appoint their office holders (usually volunteers) and make independent loan decisions. GPs will help the leasehold groups start and operate their savings and credit operations and will receive the appropriate training. The RFSP will provide audit services for the savings and credit activities of the leasehold groups. Initially, members of the leasehold groups will save at an agreed monthly rate (usually NPR 20-30). Typical interest rates on deposits are 6-12% per year, while 2-3% per month are payable for loans. Members should have passbooks to facilitate the collection of voluntary savings.

24. **VFA activities.** Formation of VFAs will occur when the RFSP assesses that a number of mature leasehold groups meet the following criteria: (i) a combined membership of more than 100 and accumulated savings of NPR 50 000 (USD 675); (ii) good qualitative performance in terms of ownership, governance and loan repayment discipline; and (iii) no other existing member-based specialist financial institution within easy reach. The RFSP will provide most of the training and advice to the leasehold groups regarding the formation and operation of a VFA, and their support will phase out as VFAs increase their operational sustainability. The RFSP will use their regular visits to monitor progress through completion of a simple one-page monitoring sheet, assisting the VFA to prepare their annual statements after the first, second and third year of operations. The non-formal training courses provided to the VFAs will cover: (i) orientation; (ii) office holder training; (iii) loan management; (iv) accounts closing; and (v) advanced loan management.

25. VFAs will largely follow the cooperative structure with regard to the rights and responsibilities of the annual general meeting, the board and management. Interest on savings will be credited quarterly to the accounts. Within the former savings and credit groups, members will provide mutual guarantees for loans from the VFA. The VFAs will appoint staff paid through a performance-related remuneration system and gradually diversify the financial products, especially with regard to deposit mobilization and accessibility of deposits. Each VFA will operate a double-entry accounting system, make loan loss provisions and have their accounts audited by an external auditor. Staff will be appointed by the VFAs, and the VFA members will continue to make regular monthly savings at a rate to be agreed by the membership. Members will be able to access up to 50% of their accumulated savings once a year at the financial year end, commencing after the deposits from the goat distribution scheme have been received. Members who fail to honour their goat pledge of NPR 1 000 per goat will be unable to borrow from the VFA. Interest on the savings and time deposit (6% per annum) will be calculated and credited annually, and will be available for withdrawal thereafter. After about three years of successful internally funded savings and credit activities, the VFAs, if in need of additional funds and eligible, can apply for external funding from one or another of the existing credit schemes (e.g. the Nepal Rastra Bank [Central Bank] Rural Self Reliance Fund, the Rural Microfinance Development Centre programme and the Small Farmers' Development Bank). This will help inject incremental capital into the leasehold forest areas, while not undermining the savings group-led solidarity/ownership of the association.

Programme Management and Coordination

26. At the national level, the programme will finance the activities needed to: manage the overall programme; coordinate programme activities at the regional and national levels; coordinate programme activities with those of the other forest management programmes; and monitor and evaluate programme implementation. The programme will support DOF and DLS through financing the following: (i) office equipment and vehicles including replacements for items provided under HLFFDP; (ii) programme operating costs, including staff salaries (financed by the Government), staff training (management information system, accounting, advanced computing, gender awareness and technical subjects), field allowances and office and vehicle operating costs; (iii) unallocated local consultancies and/or research contracts to be awarded to appropriate institutions to address key issues; and (iv) preparation and distribution of manuals and extension materials, annual audits and the installation and operation of a leasehold forestry website. The programme will provide a small amount of office equipment for the regional Ministry of Forests and Soil Conservation (MFSC) directorates and associated operating costs. In terms of coordination at national level, the programme will finance the costs of: (i) the meetings of the Programme Coordination Committee, three working group meetings a year and an annual planning workshop; and (ii) the costs of six monthly coordination meetings in each of the five development regions and five annual regional review and planning workshops. The programme will finance the costs of establishing and operating a simple and cost-effective management information system, regular monitoring of programme activities by the leasehold groups, external evaluations and special studies as and when required.

D. Costs and Financing

27. Total programme costs including contingencies, duties and taxes are estimated at USD 12.77 million. Physical and price contingencies add about 4% to the base costs. Taxes and duties have been calculated at prevailing rates and amount to USD 728 000, about 6% of total programme costs. Foreign exchange costs represent an estimated 4% of the total. The cost estimates reflect the use of the new MFSC norms for calculating the costs of formal training courses and staff field allowances. With an estimated 234 800 beneficiaries (44 300 households), the cost per beneficiary is USD 54. An estimated 50% of the programme funds will flow directly to the beneficiaries in the form of cash and in-kind payments. IFAD will provide a loan of approximately USD 10.49 million and a grant of approximately USD 1.22 million; the Government will provide USD 1.05 million and beneficiaries will provide USD 14 000. The grant will finance the social mobilization sub-component of the programme (see paragraph 15 and programme logical framework). The grant will support the capacity-building of leasehold groups and their federation into village finance associations. This will enable the poor to influence local institutions and policy-makers.

TABLE 1: SUMMARY OF PROGRAMME COSTS^a
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
Leasehold forestry and group formation	4 862	74	4 936	2	40
Livestock development	4 651	135	4 786	3	39
Rural financial services	1 037	103	1 140	9	9
Programme management and coordination	1 244	185	1 428	13	12
Total base costs	11 794	497	12 290	4	100
Physical contingencies	124	25	149	17	1
Price contingencies	294	39	333	12	3
Total programme costs	12 212	561	12 772	4	104

^a Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN^a
(USD '000)

Components	IFAD Loan		IFAD Grant		Government		Beneficiaries		Total		Foreign Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
Leasehold forestry and group formation	3 592	70.4	1 221	23.9	288	5.6	-	-	5 101	39.9	83	4 730	288
Livestock development	4 847	97.8	-	-	97	1.9	14	0.3	4 958	38.8	154	4 708	97
Rural financial services	1 042	87.2	-	-	153	12.8	-	-	1 195	9.4	118	923	153
Programme management and coordination	1 008	66.4	-	-	510	33.6	-	-	1 519	11.9	206	1 123	190
Total disbursement	10 489	82.1	1 221	9.6	1 048	8.2	14	0.1	12 772	100.0	561	11 484	728

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

28. All procurement of goods and services financed by IFAD will be in accordance with IFAD Procurement Guidelines. The programme involves no procurement suitable for international competitive bidding. As for previous IFAD projects, IFAD loan funds will flow to a Special Account in foreign exchange in the Nepal Rastra Bank, Kathmandu, or another bank acceptable to IFAD. The IFAD grant funds will flow to a separate bank account. IFAD will make initial deposits to the Special Account equal to its share of approximately six months' worth of eligible expenditures. On the basis of the approved annual workplans and budgets (AWPBs), funds will flow to programme accounts. Replenishment of the Special Account will be through withdrawal applications, supported by appropriate documentation or certified statements of expenditure. The Auditor-General will audit the programme accounts in accordance with the International Standards on Auditing and IFAD Guidelines on Project Audits. The audited accounts and financial statements, in a format agreed with IFAD at programme start-up, will be submitted to IFAD no later than six months after the close of each government fiscal year.

F. Organization and Management

29. The DOF will be the lead agency for programme implementation, with the DLS supporting implementation of the livestock development component. In the interests of harmonization with the Government's programmes, there will be no separate programme management unit. Prior to the establishment of the proposed Leasehold Forestry Division (LFD), the existing Leasehold Forestry Section in the National Forest Division will manage and coordinate programme activities at national level, assisted by the National Pasture and Animal Feed Centre in the DLS. District staff of the DOF and the DLS will implement programme activities at the district and field levels assisted by service providers (e.g. SMSP and RFSP) and temporary recruited staff. The DFOs will play the most important role in the programme and will: (i) hand over degraded forests to the leaseholder groups; (ii) direct the district forestry staff in the proper execution of the programme; and (iii) coordinate all donor-funded forestry activities in the district. Programme coordination arrangements have been designed based on lessons from HLFFDP experience and will involve: (i) a programme coordination committee; (ii) a programme coordination working group; (iii) regional coordination groups; (iv) district programme coordination committees (DPCCs); (v) district coordination working groups; and (vi) field coordination groups at the range-post level.

30. To support the Government's forestry-sector harmonization objectives, in districts where the district development committee has established a district forest coordination committee, this committee will take over the responsibilities of the programme's DPCC. In this way, leasehold forestry activities will be coordinated for the first time in a formal way with other forestry-sector programmes at district level. The programme will finance all allowances for government staff at established government rates to avoid introducing distortions in the sector. This will ensure that leasehold forestry is complementary to the ongoing successful community forestry programme.

G. Economic Justification

31. **Benefits and beneficiaries.** The programme will aim to benefit 44 300 poor households. Improved livelihoods for the poor will be the main direct programme benefit stemming from increased and sustainable production and incomes from the leasehold plots. Based on FAO impact studies of HLFFDP, the expected benefits include: a significant increase in the availability of animal feed, forage self-sufficiency and numbers of stall-fed goats; a significant household income increase from a variety of sources, e.g. dairy and fruit production and grass seed sales; increased household food security and an improvement in the diet of children in terms of milk, fruit and vegetables; a substantial reduction in the time required by women for the collection of forage and firewood and as a result improved school attendance by children; greater women's self-esteem and confidence; and a halt to, and a reversion of environmental degradation at most leasehold sites with an increase in ground cover and in the number of plant species, trees and tree species present.

32. **Sustainability.** The focus of the programme is to develop sustainable institutions that work for the benefit of the target group and can operate without programme assistance following the end of the programme. There are three elements to this approach: (i) the establishment of cohesive leasehold groups that are able to operate and access services and technical support without the assistance of GPs; (ii) the establishment of VLAs and later VAHWs able to provide livestock health and extension services to the leaseholders on a fee basis; and (iii) the formation and development of financially viable VFAs during the programme period.

33. **Financial and economic analysis.** Calculations of financial and economic benefits have been based on the observed impact of the HLFFDP. Five farm models show that household income from the use of the leasehold plots will rise by between NPR 6 500 (USD 87) and NPR 16 000 (USD 216) per year. The farm models show that in PY6 the annual net income generated by the leasehold forestry and livestock activities would be NPR 9 000-10 000 (USD 122-135) per household. As a result, the participating households can be considered as emerging from poverty five years after starting leasehold forestry, a process completed after about ten years. The models therefore assume that the leaseholders will pay half the official lease fee of NPR 500 (USD 6.76) per ha five years after taking up the lease and the full fee five years later. This approach is consistent with the Forest Act (1993) and the leaseholders' capacity to pay lease fees. From these fees, the Government will recover USD 205 000 from the beneficiaries in PY 10 and USD 360 000 in PY 20, the real value of which would be equal to about 150% of the annual repayments of the proposed IFAD loan. Hence there is virtually no financial and economic burden on the Government. The overall economic rate of return is 16% over 20 years. Only extreme delays in realizing programme benefits (more than two years) or thoroughly unsustainable programme benefits (represented by an annual 20% decrease of benefits after PY 10) would jeopardize the economic viability of the programme.

H. Risks

34. The main risk to the programme is associated with the insurgency, which is discussed in detail in Appendix VIII. There are no major technical risks associated with the programme. The development approach has been successfully implemented under HLFFDP and the technologies are proven for use in the area to be targeted, i.e. up to 2 000 m. Inadequate institutional capacity is a risk

to programme success and the programme includes several measures to overcome this risk, including hiring additional staff and specialist service providers. The approach to capitalizing the VFAs is new and untried in Nepal and inevitably it may be unsuccessful. Therefore the financial services component includes a pilot phase, which will be evaluated twice during its implementation so that adjustments can be made to the arrangements if necessary. Finally, in terms of government ownership, in addition to leasehold forestry being given the highest priority in the PRSP, the Government is processing amendments to forestry legislation to streamline further leasehold forestry implementation and is proposing to create an LFD within the DOF.

I. Environmental Impact

35. An Environmental Screening and Scoping Note was prepared during programme formulation in line with IFAD procedures. The programme is classified as Category “B”. Accordingly, a full-scale environmental assessment is not required.

J. Innovative Features

36. Innovation is a process that starts with piloting new approaches and ends with scaling up and replication. HLFFDP piloted a new pro-poor approach to forestry in Nepal. The approach has evolved and is now ready for scaling up by the Government into a national programme. The LFLP will assist the Government in financing this new national programme and has adopted the design changes recommended by the IE. Additional new dimensions of the programme include: (i) the approach to capitalization of the VFAs; (ii) the approach to the provision of basic animal health services through VLAs; and (iii) where possible, the coordination of the programme through established district forest coordination committees. In this way IFAD-financed leasehold forestry activities will be coordinated for the first time in a formal way with other forestry sector programmes at district level.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

37. A financing agreement between the Kingdom of Nepal and IFAD constitutes the legal instrument for extending the proposed financial assistance to the borrower. A summary of the important supplementary assurances included in the negotiated financing agreement is attached as an annex.

38. The Kingdom of Nepal is empowered under its laws to borrow from IFAD.

39. I am satisfied that the proposed financial assistance will comply with the Agreement Establishing IFAD.

PART IV – RECOMMENDATION

40. I recommend that the Executive Board approve the proposed financial assistance in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Kingdom of Nepal in various currencies in an amount equivalent to seven million one hundred fifty thousand Special Drawing Rights (SDR 7 150 000) to mature on or prior to 1 December 2044 and to bear a service charge of three quarters of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

RESOLVED FURTHER: that the Fund shall provide a grant to the Kingdom of Nepal in various currencies in an amount equivalent to eight hundred forty thousand Special Drawing Rights (SDR 840 000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED FINANCING AGREEMENT

(Negotiations concluded on 20 October 2004)

1. **Additional Staff Departments of Forests and of Livestock.** The Department of Forests will provide qualified programme staff in adequate numbers to implement programme activities as agreed with IFAD, and will hire approximately 44 additional forest rangers. The Department of Livestock Services will hire approximately 22 additional junior technicians and/or junior technical assistants on a temporary basis for the duration of the programme.
2. **Key programme staff.** The following key programme staff (i.e. programme coordinator, livestock coordinator (Class 1), forest officer (Class 2), senior livestock development officer (Class 2) and the accounts officer (Class 3)) will, in normal cases, be retained until at least the completion of the mid-term review. The lead programme agency will consult with IFAD before transferring the programme coordinator.
3. **Financial statements.** The lead programme agency will ensure that the records of the programme's financial statements reflect all financial transactions during the programme implementation period, both by programme component and by standard expenditure categories.
4. **Leasehold fees.** The DOF will charge leaseholders half the official lease fee commencing five years after their lease is granted and the remaining 50% of the full official lease five years thereafter, subject to review during the mid-term review. The obligation to pay the official lease fee will be communicated to the leasehold groups at the commencement of their involvement with the programme.
5. **Leasehold forestry policy.** The Borrower will, in line with the leasehold forestry policy of the Borrower (2002), ensure that, for the programme implementation period, the District Forest Office of DOF is authorized to: (i) register leasehold groups; (ii) issue leasehold certificates; (iii) approve operational plans and revise those operational plans; and (iv) permit some proportion of the income generated from the old trees within the leasehold forestry plots to accrue to the leaseholder groups in return for safeguarding the old trees.
6. **Lease transfer.** The DOF will approve the constitutions of leasehold forestry groups that provide for the transfer of the leasehold, in the event of a member's death, or where a leaseholder group member fails to meet his/her membership obligations.
7. **Lease certificates.** The DOF will ensure that leasehold certificates issued to leasehold forestry groups will include the names of both the husband and wife of the participating households (where appropriate).
8. **Village livestock assistants.** The DLS will, within three months of the successful completion of the training, issue the VLAs with certificates to show that they have satisfactorily completed their training.
9. **Saving and credits cooperatives.** The Borrower will expedite the resolution of the current uncertainty of the legal status and obligations of savings and credit cooperatives.
10. **Gender focus.** The Borrower will ensure that women are represented in the organization and management of the programme and will facilitate their access to programme activities and benefits.

11. **Mid-term review.** The mid-term review will, among other things, review the following: (i) loans disbursed, on-time repayment rates and savings mobilized by VFAs; (ii) implementation capacity of the implementing agency; (iii) gender impact; (iv) potential for VLAs to be trained as village animal health workers; (v) incomes of the leaseholder groups to confirm capacity to pay 50% of the annual lease fee after five years, and the remaining 50% of the full official lease five years thereafter; (vi) the number and capacity of leasehold forestry groups formed; and (vi) the need to include HIV/AIDS awareness training for the beneficiaries.

12. **Monitoring and evaluation.** The DOF will have overall responsibility for establishing a financial and physical monitoring and evaluation system from the community to the national level, satisfactory to IFAD, no later than 12 months after the effective date. The monitoring and evaluation system will be based on IFAD's requirements for measuring and reporting on the results and impact of the programme. The DOF will monitor the leasehold forestry and group formation component, the DLS will monitor the livestock development component, and the RFSP will monitor the rural financial services component.

13. **Conditions precedent to effectiveness of the financing agreement.** The following are specified as conditions precedent to the effectiveness of the Financing Agreement:

- (a) the programme coordinator (Class 1 or Class 2 forest officer) will have been duly appointed by the lead programme agency and approved by IFAD;
- (b) the Borrower will have duly opened the Special Account and the Grant Bank Account;
- (c) the lead programme agency will have duly opened the DOF programme account, which will receive loan and grant proceeds for programme activities;
- (d) the Financing Agreement will have been duly signed, and the signature and performance thereof by the Borrower will have been duly authorized and/or ratified by any and all necessary administrative and governmental action; and
- (e) a favourable legal opinion, issued by the Secretary of the Ministry of Law, Justice and Parliamentary Affairs, in form and substance acceptable to IFAD, will have been delivered by the Borrower to IFAD.

14. **Additional events of suspension.** The Fund will suspend the right of the Borrower to request withdrawals from the Loan and/or Grant Account in accordance with Section 12.01 (Suspension by the Fund) of the *General Conditions for Agricultural Development Financing* if the audit report for the programme has not been satisfactorily completed within 12 months after the end of the fiscal year.

APPENDIX I

COUNTRY DATA

NEPAL

Land area (km² thousand) 2002 1/	143	GNI per capita (USD) 2002 1/	230
Total population (million) 2002 1/	24.12	GDP per capita growth (annual %) 2002 1/	-2.7
Population density (people per km²) 2002 1/	169	Inflation, consumer prices (annual %) 2002 1/	2
Local currency	Nepalese Rupee (NPR)	Exchange rate: USD 1 =	NPR 74
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1996-2002 1/	2.4	GDP (USD million) 2002 1/	5 549
Crude birth rate (per thousand people) 2002 1/	32	Average annual rate of growth of GDP 1/ 1982-1992	4.9
Crude death rate (per thousand people) 2002 1/	10	1992-2002	4.6
Infant mortality rate (per thousand live births) 2002 1/	62	Sectoral distribution of GDP 2002 1/	
Life expectancy at birth (years) 2002 1/	60	% agriculture	41
Number of rural poor (million) (approximate) 1/	n/a	% industry	22
Poor as % of total rural population 1/	n/a	% manufacturing	8
Total labour force (million) 2002 1/	11.27	% services	37
Female labour force as % of total 2002 1/	41	Consumption 2002 1/	
Education		General government final consumption expenditure (as % of GDP)	10
School enrolment, primary (% gross) 2002 1/	122 a/	Household final consumption expenditure, etc. (as % of GDP)	78
Adult illiteracy rate (% age 15 and above) 2002 1/	56	Gross domestic savings (as % of GDP)	12
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 2/	n/a	Merchandise exports 2002 1/	568
Malnutrition prevalence, height for age (% of children under 5) 2002 3/	51 a/	Merchandise imports 2002 1/	1 419
Malnutrition prevalence, weight for age (% of children under 5) 2002 3/	48 a/	Balance of merchandise trade	-851
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2002 1/	5 a/	before official transfers 2002 1/	-580 a/
Physicians (per thousand people) 2002 1/	n/a	after official transfers 2002 1/	-165 a/
Population using improved water sources (%) 2002 3/	88	Foreign direct investment, net 2002 1/	0
Population with access to essential drugs (%) 1999 3/	0-49	Government Finance	
Population using adequate sanitation facilities (%) 2002 3/	28 a/	Overall budget balance (including grants) (as % of GDP) 2002 1/	-4
Agriculture and Food		Total expenditure (% of GDP) 2002 1/	18
Food imports (% of merchandise imports) 2002 1/	13 a/	Total external debt (USD million) 2002 1/	2 953
Fertilizer consumption (hundreds of grams per ha of arable land) 2002 1/	227 a/	Present value of debt (as % of GNI) 2002 1/	31
Food production index (1989-91=100) 2002 1/	139	Total debt service (% of exports of goods and services) 2002 1/	9
Cereal yield (kg per ha) 2002 1/	2 171	Lending interest rate (%) 2002 1/	8 a/
Land Use		Deposit interest rate (%) 2002 1/	5 a/
Arable land as % of land area 2000 1/	22 a/		
Forest area as % of total land area 2000 1/	27 a/		
Irrigated land as % of cropland 2000 1/	36 a/		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2004

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2004

PREVIOUS IFAD FINANCING TO NEPAL

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan Acronym	Currency	Approved Loan Amount	Disbursement (as % of Approved Amount)
Integrated Rural Development Project (Sagarmatha Zone)	AsDB	AsDB	HC	12 Dec 78	01 Nov 79	31 Dec 88	L - I - 10 - NEP	USD	13 000 000	89
Small Farmer Development Project	IFAD	AsDB	HC	05 Dec 80	10 Jul 81	31 Dec 87	L - I - 57 - NE	SDR	9 800 000	100
Command Area Development Project	AsDB	AsDB	HC	17 Dec 81	01 Oct 82	30 Sep 89	L - I - 82 - NE	SDR	9 800 000	62
Second Small Farmer Development Project	IFAD	AsDB	HC	02 Apr 85	03 Mar 86	30 Jun 91	L - I - 166 - NE	SDR	15 150 000	100
Aquaculture Development Project	AsDB	AsDB	HC	18 Sep 86	15 Oct 87	31 Dec 92	L - I - 191 - NE	SDR	4 200 000	15
Production Credit for Rural Women Project	IFAD	UNOPS	HC	10 Sep 87	30 Nov 88	31 Dec 97	L - I - 208 - NE	SDR	4 750 000	100
Hills Leasehold Forestry and Forage Development Project	IFAD	UNOPS	HC	07 Dec 89	18 Feb 91	31 Dec 01	L - I - 250 - NE	SDR	10 000 000	37
Groundwater Irrigation and Flood Rehabilitation Project	IFAD	UNOPS	HC	19 Apr 94	01 Nov 94	31 Dec 01	L - I - 352 - NP	SDR	7 000 000	48
Poverty Alleviation Project in Western Terai	IFAD	UNOPS	HC	11 Sep 97	10 Mar 98	31 Dec 05	L - I - 452 - NP	SDR	6 550 000	78
Western Uplands Poverty-Alleviation Project	IFAD	UNOPS	HC	06 Dec 01	01 Jan 03	30 Sep 14	L - I - 576 - NP	SDR	15 600 000	3

AsDB: Asian Development Bank
 UNOPS: United Nations Office for Project Services
 HC: Highly concessional

LOGICAL FRAMEWORK

Objective Hierarchy	Key Performance Indicators and Targets ²	Monitoring Mechanisms and Information Sources	Assumptions
<p>Goal A sustained reduction in the poverty of 44 300 poor households that are allocated leasehold forestry plots in 22 districts through increased production of forest products and livestock.</p>	<ul style="list-style-type: none"> • Increase in the number of buffaloes owned by leaseholders* with data disaggregated by gender of the household head and by category of the poor. • % of male and female children < five years malnourished (weight for age), chronically malnourished (height for age) and wasted (weight for height) compared to the level at programme start-up* with data disaggregated by gender of the household head and by category of poor. • Number of leaseholders with improved food security (months per year) with data disaggregated by gender of the household head and by category of poor. <p>(Target 44 300 leaseholders.)</p>	<p>Baseline survey and subsequent impact surveys prior to the Mid-term Review and Programme Completion review.</p>	<p>Political stability, security and limited internal or external shocks to the economy.</p>
<p>Purpose of Components</p> <p>1. Leasehold Forestry and Group Formation</p> <p>Improved household forage and tree crop production from secure and sustainable management of leasehold plots.</p>	<ul style="list-style-type: none"> • Number of leasehold groups using sustainable forest management systems and area. • Number of leasehold groups reporting increased production from their plots. • Number of leaseholders (with data disaggregated by gender of the household head) granted 40-year renewable leases. • Proportion of the leasehold area covered by vegetation. • Number of species present. <p>(Target numbers are: leaseholders 44 300; area of improved forage crops 8 860 ha and area of leasehold plots 31 000 ha.)</p>	<p>Programme management information system and participatory impact monitoring.</p> <p>Studies of vegetative cover and species diversity.</p>	<p>Proven and acceptable technology and approaches are available. Leasehold forestry for poverty reduction remains a high-priority government policy.</p>
<p>2. Livestock Development</p> <p>Improved household production of small livestock (goats).</p>	<p>Number of leaseholders (with data disaggregated by gender of the household head) reporting an increase in the size of their goat flocks.</p> <p>(Target 44 300 leaseholders.)</p>	<p>Programme management information system and participatory impact monitoring.</p>	<p>As above</p>
<p>3. Rural Financial Services</p> <p>Viable microfinance institutions (VFAs) are providing services to leaseholders.</p>	<ul style="list-style-type: none"> • VFAs have portfolio at risk (>30 days past due) of <5%. • % of the VFAs operationally self sufficient. <p>(Target 330 VFAs at the end of the programme period.)</p>	<p>Programme management information system and VFA reports.</p>	<p>As above</p>
<p>4. Programme Management and Coordination</p> <p>Government has developed the capacity to implement leasehold forestry as a poverty reduction programme in a gender-sensitive way.</p>	<ul style="list-style-type: none"> • DFOs and LFD implementing leasehold forestry effectively as a poverty reduction programme with a focus on the development that benefits women. • DLS providing livestock support services to leasehold groups in ways that support women. • Leases given to households in joint names where appropriate. 	<p>Programme management information system and participatory impact monitoring.</p>	<p>As above Improving the status of women remains a government policy.</p>

² Indicators in bold are the RIMS indicators and those with * are the anchor indicators. The anchor indicator regarding buffalo ownership is tentative, pending RIMS finalization.

Objective Hierarchy	Key Performance Indicators and Targets ²	Monitoring Mechanisms and Information Sources	Assumptions
<p>Outputs by Component</p> <p>Output 1. Leasehold Forestry and Group Formation</p> <p>Leasehold groups functioning effectively and the leasehold plots developed according to their operational plans.</p>	<ul style="list-style-type: none"> • 44 300 households with leasehold plots receiving programme-financed services with data disaggregated by gender of the household head. • All men and women members of the 3 300 new leasehold groups trained. • 3 300 initial five-year operational plans approved. • 3 300 new leasehold groups complying with their initial operational plans. • 4 000 revised five-year operational plans approved (including HLFDP leasehold groups). 	<p>Programme management information system and participatory impact monitoring.</p>	<ul style="list-style-type: none"> - The proposed amendments to the forestry legislation re: leasehold forestry are enacted. - DOF hires service provider/s for mapping and planning and to provide female group promoters.
<p><i>Activities</i></p>	<p><i>Key inputs</i></p>	<p><i>Costs</i></p>	
<ul style="list-style-type: none"> • <i>District planning and coordination:</i> <ul style="list-style-type: none"> - Analyse district statistics and existing maps to determine priority VDCs. - Within priority VDCs identify potential target areas and communities. - Rank potential VDCs according to area of degraded forest and number of poor households. - Prioritize and select target VDCs and select priority sites and communities. - Coordinate activities at district and field levels. • <i>Group formation and forest allocation:</i> <ul style="list-style-type: none"> - Demarcate leasehold plots. - Form leasehold groups with 10-15 members each. - Prepare group constitution and operational plan. - Register leasehold groups and issue leasehold certificates. - Start group savings. - Revise operational plans after 5 years • <i>Social mobilization:</i> <ul style="list-style-type: none"> - Identify, recruit and train female group promoters. - Group promoters to: (i) undertake social mobilization of the groups; (ii) assist women to become leasehold forestry group members (citizenship); (iii) develop the capacity of the leasehold groups, including gender awareness training; and (iv) assist illiterate group members to gain access to adult literacy training. • <i>Land and forest development:</i> <ul style="list-style-type: none"> - Leaseholders end free grazing of the leasehold plots. - Prevent bush fires. - Provide on-site land development training for men and women. - Leaseholders develop the plots in accordance with their operational plans. • <i>Implementation support:</i> <ul style="list-style-type: none"> - Select and recruit temporary forestry staff. - Train existing and temporary forestry staff (leasehold policy, rules and regulations, technical aspects and gender issues). 	<ul style="list-style-type: none"> • Sets of district topographical maps. • Mapping and ranking of VDCs in PY1 contracted to one or more service provider/s. • 22 district planning workshops in PY1. • 22 district review workshops per year. • Staff allowances, associated transport and other operating costs. • Meeting costs for coordination. • Concrete posts for demarcation of 2 500 km of plot boundaries. • 22 sets of GPs equipment and 132 measuring tapes (six per district). • Training for forest rangers and livestock technicians in preparation of operational plans. • GP training for forest rangers. • Staff allowances and associated costs to identify and form 3 300 groups. • Prepare 3 300 operational plans and renew 4 071 groups. • Costs associated with obtaining citizen certificates. • 77 courses for training GPs. • Costs of 1 012 years of services provided by group promoters plus associated supervision and overhead costs. • Nursery materials, seeds, other planting material and soil conservation materials. • 66 training of trainers' courses for land development. • 66 conflict management training courses for technical staff. • Land development training for the members of 3 300 leasehold groups (men and women). • Non-formal training: 154 nursery courses, 462 forest management. • 198 study tours for leaseholders and group prizes. • 12 000 leasehold forestry calendars per year. • 57 motorcycles (38 initially). • Orientation training: 12 courses for officers, 88 for forest rangers, 66 for forest guards and 12 for accountants. • Salaries for 44 temporary rangers. • Operating costs, including staff TA/DA (3 300 days per year). 	<p>Base costs USD 0.24 million</p> <p>Base costs USD 0.97 million</p> <p>Base costs USD 1.37 million</p> <p>Base costs USD 1.25 million</p> <p>Base costs USD 1.10 million</p>	

Objective Hierarchy	Key Performance Indicators and Targets ²	Monitoring Mechanisms and Information Sources	Assumptions
<p>Output 2. Livestock Development</p> <p>Leaseholders have used improved livestock husbandry systems to manage the livestock distributed with support from the village livestock assistants.</p>	<ul style="list-style-type: none"> • Number of goats distributed (target 74 250 females and 3 136 males). • >95 % of leaseholders' goats managed using stall-feeding systems with data disaggregated by gender of the household head. • One active VLA per 20 leasehold groups. 	<p>Programme management information system and participatory impact monitoring.</p>	<ul style="list-style-type: none"> - Proven and acceptable technology available. - DLS supports the village livestock assistants.
<p><i>Activities</i></p>	<p><i>Key inputs</i></p>	<p>Costs</p>	
<ul style="list-style-type: none"> • <i>Goat production:</i> <ul style="list-style-type: none"> - Provide two goats per eligible household and one buck per eligible leasehold group. - Provide seeds and planting material of improved tree and forage species. - Provide vegetable seeds to each group - Vaccinate and drench goats. • <i>Livestock training and services:</i> <ul style="list-style-type: none"> - Select and recruit VLAs. - Train VLAs to provide simple livestock extension messages and health services. - VLAs provide leaseholders onsite animal husbandry training, advice and simple animal health services (vaccination, drenching and castration). - VLAs train to become VAHWs. - VAHWs provide leaseholders' animal health services. • <i>Implementation support:</i> <ul style="list-style-type: none"> - Select and recruit temporary livestock staff. - Train existing and temporary livestock staff (role of livestock in leasehold forestry, technical aspects and gender issues). 	<ul style="list-style-type: none"> • 74 750 female and 3 136 male goats. • <i>Stylo</i> seed (31 107 kg); grass seed (9 307 kg); planting material (62 034 bundles). • 3 300 leasehold groups provided with vegetable seeds. • Costs (materials and fee) for vaccinating and drenching 74 750 female and 3 136 male goats purchased and for 288 750 kids. • Allowances for DLSO staff and VLAs to participate in goat procurement (2 970 person days each). • Extension materials and simple equipment for 180 VLAs. • 12 initial training courses and 39 follow-up courses for VLAs. • Costs for 88 VLAs to train as VAHWs. • Design of VLA and leasehold group training courses • 18 030 non-formal training courses for the leasehold groups delivered by VLAs. • 29 motorcycles (19 initially). • 22 refrigerators, 44 cool boxes, 22 microscopes and laboratory material for 22 districts. • Training courses for junior technicians and/or junior technical assistants: social mobilization (15), animal husbandry (44), fodder and seed production (15), goat production (15), livestock feeding and breeding (10). • Refresher training courses for officers: fodder and seed production (15) and livestock production and feeding (10) • Salaries for 22 temporary livestock technicians. • Operating costs including TA/DA (3 300 days per year). 	<p>Base costs USD 3.44 million</p> <p>Base costs USD 0.38 million</p> <p>Base costs USD 0.96 million.</p>	
<p>Output 3. Rural Financial Services</p> <p>Village finance associations established to provide savings and credit services to leaseholders.</p>	<ul style="list-style-type: none"> • 330 village finance associations established and operating. • Number of actively saving households. • Total savings balance in NPR. • No. of loans outstanding. • Gross loan portfolio. • Average loan size. <p>(Savings and loan accounts will be in joint name data disaggregated by gender not available).</p>	<p>Programme management information system and participatory impact monitoring.</p>	<p>Government resolves the current uncertain legal status of savings and credit cooperatives, including VFAs.</p> <p>DOF recruits service provider/s.</p>

Objective Hierarchy	Key Performance Indicators and Targets ²	Monitoring Mechanisms and Information Sources	Assumptions
<p><i>Activities</i></p> <ul style="list-style-type: none"> - Support savings and credit activities of 3 300 leasehold groups - Form 330 village finance associations with the first 44 as a pilot. - Membership selects the associations' officials. - Establish the financial, accounting and governance records. - Provide initial training for officials, technical assistance and continuing oversight (service provider). - VFAs make loans to men and women leaseholders using internal sources. - Capitalize the associations using income from the initial sale of goats. - Evaluate pilot VFAs and modify programme if necessary. - Support VFAs to access extra funds from banks and/or microfinance institutions. 	<p><i>Key inputs</i></p> <ul style="list-style-type: none"> • 11 motorcycles. • Group (3 300) and VFA (330) record books and equipment. • Computer equipment. • Seven initial and seven advanced savings and credit training courses for GPs and 660 courses for leasehold groups. • Contracts with service provider(s) to support VFAs (142 person years for facilitators), the associated training, supervision and overhead costs. • VFA training courses: orientation (330), office holders (330), loan management (330), accounts closing (61) and advanced loan management (308). • Consultancy to assess pilot VFA operations (interim and final evaluations (two months each). 	<p><i>Costs</i></p> <p>Base costs USD 1.14 million</p>	
<p>Output 4. Programme Management and Coordination</p> <p>The Leasehold Forestry Division has managed and coordinated programme activities in a gender-sensitive way in compliance with the IFAD Financing Agreement.</p>	<ul style="list-style-type: none"> • % disbursement of the IFAD loan and grant. • Coordination of programme activities effective. • Regular monitoring of programme activities with data disaggregated by gender where appropriate. 	<p>Programme management information system and participatory impact monitoring.</p>	<ul style="list-style-type: none"> - DOF establishes a Leasehold Forestry Division. - Improving status of women remains a government policy.
<p><i>Activities</i></p> <ul style="list-style-type: none"> • <i>Programme management and coordination LFD – DOF:</i> <ul style="list-style-type: none"> - Prepare annual work plans and budgets, progress reports and withdrawal applications. - Operate the special and programme accounts. - Manage the implementation of the leasehold forestry and group formation component. - Recruit service providers for social mobilization rural financial institutions and mapping and planning. - Prepare and distribute manuals and extension materials, establish and maintain a Web site. - Establish and operate a simple and cost-effective management information system. - Monitor programme activities. - Arrange for external evaluations and special studies when required. - Undertake coordination of programme activities at national, regional levels. • <i>Programme management and coordination - DLS</i> <ul style="list-style-type: none"> - Manage the implementation of the livestock activities. - Coordinate with the LFD of DOF. 	<p><i>Key inputs</i></p> <ul style="list-style-type: none"> • Two vehicles and four motorcycles (50%). • Office computer equipment and furniture for Leasehold Forestry Section/Division. • Office equipment for each of the five regional forest offices. • Staff training courses: management information systems (2), accounting (1), programme accounting (2), advanced computing (4), gender awareness (2) and technical (4). • Baseline survey and MTR and PCR impact studies, thematic workshops (7) and research contracts. • Consultancy for design of the management information system (nine months), M&E (14 months) and unallocated (32 months). • Salaries of 15 Leasehold Forestry Section/Division staff. • National meeting costs: Coordination Committee (8), Programme Coordinating Working Group (24) and AWPB preparation (8). • Regional meeting costs: Coordination (80) and AWPB preparation (40) • Office and vehicle operating costs and staff TA/DA (1 000 days per year). <ul style="list-style-type: none"> • Two vehicles and four motorcycles (50% initially). • Office equipment and furniture. • Staff training: accounting (four), gender awareness (eight) and technical (two) and advanced computing (two courses). • Salaries of 14 staff of the National Pasture and Animal Feed Centre. • Office and vehicle operating costs and staff TA/DA (500 days per year). • Unallocated consultancies (six months). 	<p><i>Costs</i></p> <p>Base costs USD 1.00 million</p> <p>Base costs USD 0.42 million</p>	

COSTS AND FINANCING

Expenditure Accounts by Components – Base Costs (USD)

	Leasehold Forestry and Group Formation	Livestock Development	Rural Financial Services	Programme Management and Coordination	Total	Physical Contingencies	
						%	Amount
I. Investment Costs							
A. Vehicles	92 432	47 027	17 838	194 470	351 767	5.0	17 588
B. Equipment & Material	56 311	222 059	188 178	174 900	641 448	5.0	32 072
C. Formal Training	548 468	353 051	101 753	33 546	1 036 818	-	-
D. Non-formal Training /a	1 267 045	121 824	74 874	-	1 463 743	-	-
E. Workshops	255 676	-	14 189	83 784	353 649	-	-
F. Local Consultancies and Studies /b	1 191 373	33 885	636 096	293 716	2 155 070	-	-
G. On-farm Investments /c	460 743	3 293 488	-	-	3 754 231	-	-
H. Service Provider Overheads	39 967	-	32 679	-	72 646	-	-
Total Investment Costs	3 912 015	4 071 334	1 065 607	780 416	9 829 371	0.5	49 661
II. Recurrent Costs							
A. Salaries /d	463 784	231 892	-	313 016	1 008 692	-	-
B. Allowances	213 449	166 338	-	79 892	459 678	-	-
C. Operating & Maintenance	347 027	316 216	74 189	255 135	992 568	10.0	99 257
Total Recurrent Costs	1 024 259	714 446	74 189	648 043	2 460 938	4.0	99 257
Total Baseline Costs	4 936 274	4 785 780	1 139 797	1 428 459	12 290 309	1.2	148 918
Physical Contingencies	42 140	45 076	17 720	43 982	148 918	-	-
Price Contingencies	122 549	127 033	37 477	46 294	333 353	1.6	5 226
Total Programme Costs	5 100 963	4 957 889	1 194 994	1 518 735	12 772 580	1.2	154 144
Taxes	287 612	96 545	153 481	189 886	727 523	3.1	22 310
Foreign Exchange	82 810	153 532	118 255	206 255	560 852	4.8	26 707

a/ Direct training for leasehold groups' members

b/ Includes service provider staff: (a) the village-based Groups Promoters; (b) staff to support the District mapping and VDC ranking exercises; and (c) staff to support RFIs

c/ Includes goats, seeds, planting materials and VLA and VAHW kits, all provided as grants to leasehold members.

d/ Includes (a) existing positions allocated to the National Pasture and Animal Feed Centre and the Leasehold Forestry Division, and (b) additional ones for temporary forest rangers and JT/JTAs

Disbursement Accounts by Financiers (USD)

	Government of Nepal		IFAD Loan		IFAD Grant		Beneficiaries		Total		Foreign Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
Vehicles	146 981	40.0	220 472	60.0	-	-	-	-	367 453	2.9	184 542	35 930	146 981
Equipment & Material	68 436	14.0	406 468	83.2	-	-	13 925	2.8	488 830	3.8	250 182	170 211	68 436
Consultancies, Service Providers & Studies	408 633	13.3	1 444 369	47.0	1 221 087	39.7	-	-	3 074 088	24.1	126 128	2 539 327	408 633
On-farm Investments	-	-	3 844 261	100.0	-	-	-	-	3 844 261	30.1	-	3 844 261	-
Operating Costs	424 083	8.5	4 573 865	91.5	-	-	-	-	4 997 947	39.1	-	4 894 475	103 472
Total	1 048 133	8.2	10 489 434	82.1	1 221 087	9.6	13 925	0.1	12 772 580	100.0	560 852	11 484 205	727 523

IMPLEMENTATION ARRANGEMENTS AND RESPONSIBILITIES

1. This Appendix provides some additional information with respect to the proposed implementation arrangements for the programme. These include the roles and responsibilities of the various programme partners.

Leasehold Forestry Section (LFS)/Leasehold Forestry Division (LFD), Department of Forests

2. There will be no Programme Management Unit established to manage and coordinate programme implementation. The LFS of the National Forest Division (NFD) is currently responsible for leasehold activities across Nepal. This responsibility will be transferred to an LFD when established by the DOF. DOF will be the lead agency for programme implementation, supported by the DLS, and will be responsible for managing the leasehold forestry and group formation component and the overall coordination of programme activities.

3. The roles and responsibilities of the current LFS and the LFD when established will be to: (i) procure equipment, including vehicles, goods and services (e.g. female group promoters [GPs], VFA facilitation, mapping and planning); (ii) recruit the temporary forest rangers required by the programme; (iii) establish within six months of programme effectiveness the M&E system conforming with IFAD's requirements for Results and Impact Management System (RIMS), to monitor the leasehold forestry and group formation component and supervise the overall operation of the system; (iv) manage the leasehold forestry and group formation component, including the supervision of the district programmes through the DFOs; (v) operate the Special and Programme Accounts; (vi) ensure that the programme's activities are coordinated with those of the other forestry donors in the programme districts, including the Nepal-Australia Community Resource Management and Livelihoods Project, the Natural Resources Management Sector Assistance Programme, the Nepal Livelihoods and Forestry Programme, the Nepal-Swiss Community Forestry Project, the Community Livestock Development Project, the Biodiversity Sector Project and with the *Terai* Landscape Strategy; (vii) mainstream gender and promote development that benefits women; and (viii) arrange for external evaluations of the programme and reviews (mid-term and completion).

4. In addition, the LFS/LFD will undertake a series of tasks every year related to planning, budgeting, accounting and reporting: (i) review, consolidate and approve the AWPB by 31 May of each year for inclusion in the national budget and review by IFAD and the Cooperating Institution; (ii) consolidate and process, on a regular basis, eligible programme expenditures incurred by DOF, DLS and the service providers for inclusion in withdrawal applications for submission through MOF to IFAD for reimbursement; (iii) prepare and maintain accounts for programme expenditures, consolidate these with those of the other implementing agencies to produce annual programme accounts for the year ending 15 July of each year, submit the detailed statement of programme expenditures to IFAD not later than 15 October of each year and arrange for the completion of the audit by 15 January of each year in line with the requirements of the Financing Agreement; (iv) based on the progress and annual reports from all the implementing agencies (DOF, DLS and service providers) submit six monthly and annual progress reports, in a format acceptable to IFAD and the Cooperating Institution no later than 31 August and 28 February of each year.

Department of Livestock Services

5. The DLS will work closely with the LFS/LFD and will implement the livestock development component of the programme, including activities at national and district levels. The roles and responsibilities of the LFD will be to: (i) establish within six months of programme effectiveness an M&E system for DLS activities at national and district levels that is satisfactory to LFD and supervise the operation of the system; (ii) manage the livestock development component, including the

supervision of the district activities through the DLSO, so that the implementation of the activities is coordinated with those of the DOF; (iii) increase the effectiveness of the livestock development component by ensuring effective field-level coordination with the AsDB-funded Community Livestock Development Programme; (iv) mainstream gender and promote development that benefits women; (v) recruit the temporary Junior Technicians/Junior Technical Assistants required by the programme; (vi) prepare an AWPB for the livestock activities (district and national levels) for submission to the DOF by 30 April of each year for inclusion in the programme AWPB; (vi) consolidate and process, on a regular basis, eligible programme expenditures for inclusion in withdrawal applications to be prepared by the DOF and submit these to LFD; (vii) prepare and maintain accounts for programme expenditures and submit these to LFD for inclusion in the annual programme accounts for the fiscal year ending 15 July of each year and submit the detailed statements of programme expenditures to LFD not later than 30 September of each year; and (viii) prepare six monthly progress and annual reports in a format agreed during programme start-up for inclusion in the programme's six monthly and annual progress reports, and submit these reports to LFD no later than 15 August and 15 February of each year.

Social Mobilization Service Provider(s) (SMSP)

6. Under the proposed programme, SMSPs will be contracted by DOF and will be responsible for the social mobilization activities, in particular for recruiting, training, coaching and supervising female GPs. GPs will be the main agents of social mobilization. Potential GPs will be female members of leasehold household groups, with literacy skills (preferably equivalent to at least eight years of schooling) and active in local grass-roots organizations. They will receive an initial short training and will then be engaged as GPs to coach intensively up to 20 leasehold forestry groups within walking distance of their homes. They will receive additional training every six months to increase their capacities. The role of GPs is to: (i) build links between leasehold groups and communities and the DFO and other line agencies, such as the District Education Office and the DLSO; (ii) motivate, mobilize and facilitate group formation; (iii) provide regular systematic support to leasehold groups on meeting management, leadership development, record-keeping, savings and credit management and provide simple mother and child health care, nutrition, sanitation and vegetable production messages; (iv) assist in training and extension activities of the DFO and DLSO; (v) attend all leasehold group meetings in their working area, to assist both these groups as required, and report to the DFO as to which groups need specific assistance (to manage a conflict for instance); (vi) assist the DFO in monitoring the leasehold forestry groups and sites; (vii) assist women or disadvantaged groups to obtain citizenship documents; and (viii) assist illiterate group members to access adult literacy training and widen the human resource base from which group leadership can be elected.

7. The GPs will be intensively coached and supervised by the SMSPs, through regionally based supervisors, who will be senior social mobilizers and who will visit each programme district every month, each covering five to six districts. These visits will coincide with the monthly DFO meetings, since the GPs will attend these meetings. In addition, there will be one national supervisor from the SMSPs to give guidance to the whole process, to coordinate the GP training programme and to coordinate with programme management at central level. The social mobilization service provider will be responsible for the regular six monthly training of the GPs on an average of seven days. The subject-matters covered will vary over time depending on actual needs, but will always focus on the role of the GPs.

Rural Finance Service Provider (RFSP)

8. Under the programme, the activities of the rural finance component will be implemented under the responsibility of an RFSP contracted to the DOF. The RFSP will be answerable to the Head of the LFS/LFD and will have the following responsibilities: (i) to train and assist the group promoters

employed by the SMSPs in assisting the leasehold groups to establish savings and credit activities; (ii) audit the annual statements of the savings and credit (i.e. leasehold) groups; (iii) train and advise members and officeholders of about 330 VFAs on governance, management, administration and accounts closing of a member-based rural financial institution; (iv) provide intensive guidance to each supported VFA during the initial 12 months of operation; (v) provide extensive onsite advice to the supported VFAs after the intensive guidance phase, responding mainly to the demand by VFAs; (vi) assist each supported VFA in the preparation of final annual accounts 12, 24 and 36 months after its formation; (vii) carry out two pilot studies on the safety of the deposits managed by the VFAs, and review and document the experience of the proposed term-deposit financing arrangements for VFAs; (viii) pilot potential improvements and variations of the VFA operational methodology (possibly including refinements of financial products or charging the VFAs fees for its services) and integrate the results of successful pilots in the regular VFA promotion activities; (ix) liaise with other promoters of member-based rural financial institutions to share experiences; (x) monitor the implementation progress of its own activities; (xi) establish and operate an RFI Monitoring System as a tool for administering and analysing key performance data on savings and credit groups and VFAs; (xii) review the components' implementation progress and impact annually; and (xiii) report every four months and annually to the DOF.

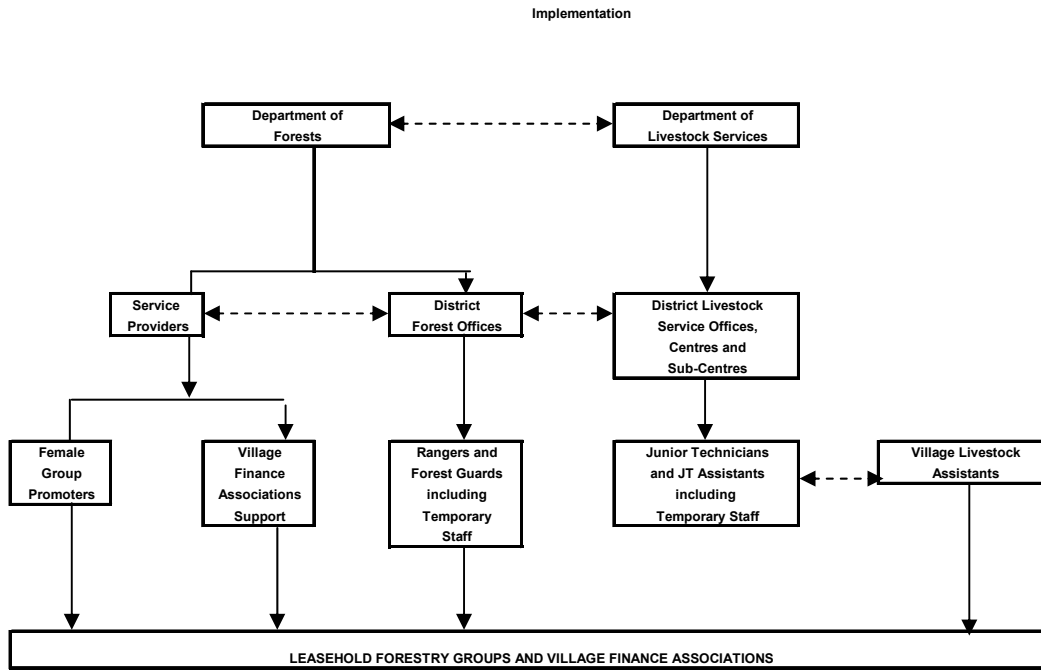
Mapping and Planning Service Provider(s) (MAPSPs)

9. Under the proposed programme, the Government is planning to identify and prioritize VDCs for programme implementation based on: (i) the availability of appropriate extensive areas of degraded forest that could be handed over as leasehold forest to groups of poor households; and (ii) the number of poor households living within a relatively short distance of the degraded forest. District planning exercises will use simple maps that indicate potential leasehold forest and a database (set of tables) that rank VDCs according to both potential leasehold forest area and numbers of poor households. Such maps and tables still need to be developed in 16 out of 22 programme districts. These will be prepared by one or more MAPSPs under contract to the DOF.

10. The MAPSPs will – in each of their assigned districts – apply a relatively cheap, simple and easily replicable mapping and ranking method developed under the Hills Leasehold Forestry and Forage Development Project (HLFFDP), consisting of: (i) a systematic field verification of the 1:25 000 and 1:50 000 topographical maps, in which colour markers are used to mark potential leasehold forest (and community forest) on these maps. Potential leasehold forest is degraded forest (denuded, bushy and/or very sparse tree cover) covering an area of at least 10 ha and located below 2 000 m, within 3 km of the nearest community. This may take two to four months fieldwork per district by an experienced ranger, depending on terrain, size and amount of forest; (ii) after the field verification, all topographical maps will be combined to produce a district-level overview map. The area of each identified potential leasehold forest is calculated, grouped by VDC, and entered in an Excel database; (iii) VDC-specific poverty data, e.g. ethnicity and literacy, are collected from district statistics and are also entered in this database; (iv) the Excel database is used to rank the VDCs according to area of potential leasehold forest and number of poor households, and a report produced accordingly; (v) the final output consists of large district overview maps that clearly visualize zones of high incidence of potential leasehold forest and district specific reports ranking VDCs according to poverty and potential leasehold forest area.

ORGANIZATIONAL CHART

Programme Organization Structure



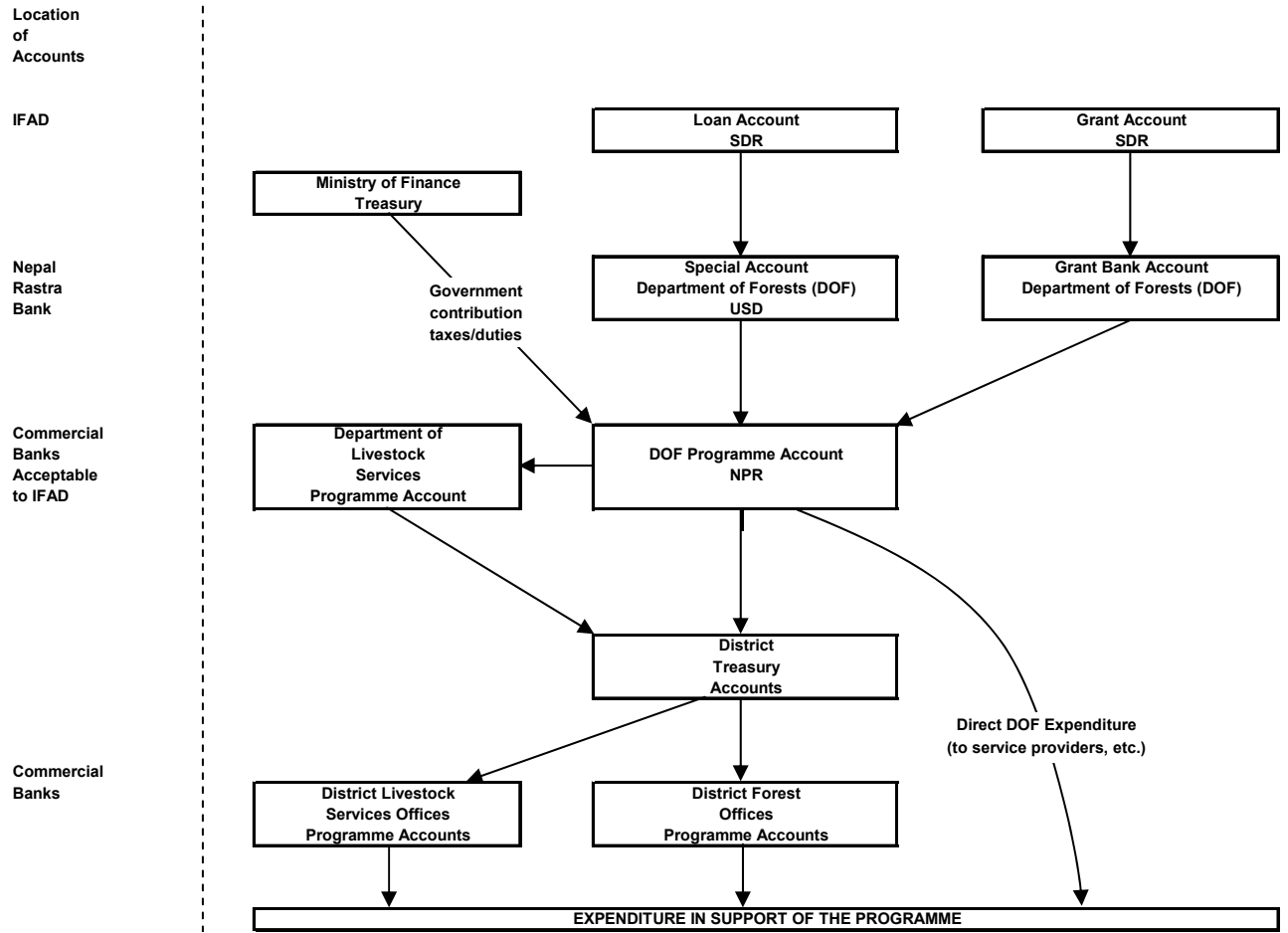
——— Implementation with reporting (in reverse).
 - - - - - Coordination

		Meetings/Year
National	Programme Coordination Committee	1
	Programme Coordination Working Group	3
	AWPB Preparation Sessions	1
Regional	Regional Coordination Meeting	2
	Forestry Review and Planning Workshop	1
	Livestock Review and Planning Workshop	1
District	District Coordination Committee (*)	3
	District Coordination Working Group (**)	6
Field	Field Level Coordination Group	3

(*) Replaced by the District Forest Coordination Committee in districts where the DDC has established such a committee.
 (**) Replaced by the District Forest Working Group where the DDC has established a District Forest Coordination Committee.

APPENDIX VI

Flow of Funds



ECONOMIC AND FINANCIAL ANALYSIS

Financial Analysis

1. Based on 12 crop and livestock models, five household models that are considered representative of the programme target group have been prepared to analyse the impact of the programme on household incomes. Households are assumed to have access to 0.75 ha of leasehold land.

2. The models analyse the economic and labour effects of the leasehold forestry and livestock activities on the participating households. All models combine leasehold forestry activities with some livestock husbandry, thus marrying the fodder production of the former with the fodder utilization of the latter. Farm models one to three represent the poorest households as categorized in the Sustainable Livelihoods Analysis. They would not own any livestock without the programme and benefit greatly by the in-kind grants that assist them in establishing goat herds or replacing goat sharecropping. For modelling purposes, their leasehold plots are assumed to be established on shrub land, although in reality they may be allocated more productive degraded forest land. Farm models four and five represent the poorer and poor households following the Sustainable Livelihoods Analysis categorization. They already own some small stock, and use the programme support to introduce productive improvements. Their leasehold plots are assumed to be on degraded forest land. Farm model four depicts the technical improvements to an existing goat herd, a situation typical for many participating households. Farm model five models the introduction of two goats followed by their replacement by a dairy buffalo in year five. Overall, the models show that household income rises by between NPR 6 500 (USD 87) and NPR 16 000 (USD 216) per year. This increase is generated by the improved utilization of degraded forest and an increase in livestock husbandry activities.

3. The farm models show that in year six the annual net income generated by the leasehold forestry and livestock activities is NPR 9 000-10 000 (USD 122-135) per household. As a result, the participating households can be considered as emerging from poverty five years after starting leasehold forestry, a process to be completed after about ten years. The models therefore assume that the leaseholders will pay half the official lease fee of NPR 500 (USD 6.76) per ha five years after taking up the lease and the full fee five years later. This approach is consistent with the forest leaseholders' capacity to pay lease fees.

Economic Analysis

4. The incremental benefit stream comprises the economic net value of production from the leasehold plots and the associated livestock production, based on farm models. From the experience of HLFFDP, most leaseholders will benefit from their participation in the programme and the programme's benefits assume that 80% of the target group or 35 400 households will successfully adopt leasehold forestry and improve or start livestock production activities. The incremental economic costs have been calculated by deducting price contingencies and taxes and duties from the financial values. The cost stream includes the annual operating costs of the LFD and the National Pasture and Animal Feed Centre in DLS after the end of the programme period, even though the staff are seconded government employees and as such the assumption is conservative. Given the above benefit and cost streams, the estimated economic rate of return is 16% over 20 years. A 10% increase in costs and a 10% decrease in benefits or a delay in the benefit stream by one year each reduce the rate of return by no more than about 2%. Only extreme delays in realizing programme benefits (two years or more), or thoroughly unsustainable programme benefits (represented by an annual 20% decrease of benefits after PY 10) would jeopardize the economic viability of the programme.

CONFLICT SITUATION

1. The appraisal process for the Leasehold Forestry and Livestock Programme included a thorough review of the relationship between the current insurgency and the proposed programme. This included consultation with major development partners in Nepal. While the situation is changing rapidly, the following was notable at the time of appraisal finalization in July 2004.
2. At the time of the Nepal Development Forum held from 5 to 6 May 2004: (i) the Government indicated strong ownership and commitment to the PRSP, including a specific recognition of the root causes of the insurgency and the urgent need to address poverty, inequality and the long-standing exclusion of marginalized groups from the development process; (ii) the main political parties indicated that they supported the PRSP and a continuation of donor-funded programmes; (iii) the major donors indicated that they were maintaining their presence in Nepal; and (iv) agencies with lending instruments similar to IFAD (World Bank and AsDB) indicated that they are continuing to process and present new projects to their Executive Boards. In this regard, the World Bank approved two new projects for Nepal in June 2004 and a third was approved in July. To conclude, there was a consensus at the Forum that the development community should remain engaged in Nepal to support implementation of the PRSP. Any disengagement from Nepal at this stage would hurt the poor and the excluded disproportionately.
3. In respect to the question of whether projects are able to operate at the field level in the current situation, the following is notable: (i) the United Nations system and the bilateral donor community in Nepal have prepared “Basic Operating Guidelines” stipulating how to operate in insurgency areas; (ii) major United Nations-financed projects in Nepal (for example the Participatory Decentralized Development Programme/Local Governance Programme – PDDP/LGP) have been able to continue to operate in spite of the insurgency, although they are sometimes subject to localized disruptions; (iii) IFAD-financed projects in Nepal, including the HLFFDP and WUPAP, have similarly been able to continue operating; (iv) in many rural areas, while project-financed NGOs and locally recruited social mobilizers have been able to operate, it is proving increasingly difficult for government staff to work; and (v) in early May 2004 three bilateral agencies (SNV, DFID and GTZ) suspended operations in a number of western districts in response to threats against SNV in Nepalganj.
4. Looking closely at the experience of leasehold forestry, the following factors are notable: (i) the LFLP is designed to focus on one of the major root causes of the insurgency, through helping to redress social inequality by providing the poor with long-term secure access to land; (ii) NGO staff such as the female GPs implementing HLFFDP have been able to operate effectively in Maoist areas; (iii) similarly, the ongoing leasehold forestry component of WUPAP in Humla, Jumla, Bajhang and Bajura has been able to operate effectively in 2004 with 132 leasehold groups formed, 82 operational plans prepared, and 1 000 ha of leasehold certificates approved by June 2004; (iv) should the situation remain as it is, or get worse, government field staff will find it increasingly difficult to work, implying an even greater role for contracted service providers such as the female GPs; and (v) under HLFFDP, there have been some instances where leasehold groups have stopped their savings programmes to avoid extortion by the Maoists. Clearly, under these circumstances an end to the insurgency is essential for rural financial service activities to operate effectively.
5. To conclude, in respect to the strategy adopted by IFAD, and pending any radical change in the situation at the national level, the Fund will proceed as follows: (i) respond to the strong demand from the Government and the PRSP priority for leasehold forestry by continuing to process the programme to the December 2004 Executive Board; (ii) ensure flexibility during implementation in order to respond to field realities; (iii) ensure implementation is informed by the United Nations “Basic Operating Guidelines”; and (iv) ensure implementation procedures are transparent and that programme staff are recruited from the targeted villages (for example the female GPs and VLAs).

