

Type of Review: Annual Review

Project Title: Multi Stakeholder Forestry Programme

Date started: August 2011 Date review undertaken: August 2012

Instructions to help complete this template:

Before commencing the annual review you should have to hand:

- *the Business Case or earlier project documentation.*
- *the Logframe*
- *the detailed guidance (How to Note)- Reviewing and Scoring Projects*
- *the most recent annual review (where appropriate) and other related monitoring reports*
- *key data from ARIES, including the risk rating*
- *the separate project scoring calculation sheet (pending access to ARIES)*

You should assess and rate the individual outputs using the following rating scale and description. ARIES and the separate project scoring calculation sheet will calculate the overall output score taking account of the weightings and individual outputs scores:

Description	Scale
Outputs substantially exceeded expectation	A++
Outputs moderately exceeded expectation	A+
Outputs met expectation	A
Outputs moderately did not meet expectation	B
Outputs substantially did not meet expectation	C

Introduction and Context

What support is the UK providing?

The UK will provide up to £20 million for the first phase of the programme (July 2011 to May 2015).

What are the expected results?

MSFP will contribute to bringing about 1.7 million people out of income poverty over 10 years and will assist about 550,000 vulnerable households become more resilient to the effects of climate change. It will increase the contribution of the forestry sector to GDP by 1.4%, increase private sector investment in the forestry sector by 4 times over the baseline and create about 80,000 jobs in rural areas for poor and

socially excluded people. These jobs will mainly be from the management and production of trees and Non-timber Forest Products (NTFPs) from community, government and private land creating additional economic opportunities for rural farmers from carbon markets and product salesⁱ.

MSFP will increase the area of forest managed by local forestry groups by 100,000 hectares and halve the deforestation rate in programme districts. It will also sustain the access to the 700,000 hectares of forest already managed by local forestry groups which by the end of the programme will capture an additional 1 million tonnes of carbon per yearⁱⁱ.

In addition, by improving forestry and natural resource policies and governance at a national level the programme will also benefit over 24 million forest dependent, rural people in all of the districts of Nepal.

What is the context in which UK support is provided?

Nepal is ranked as the second poorest country in Asia, with 25% of the population living below the national poverty line. Poverty is exacerbated by social discrimination and geographical isolation. Following a decade-long conflict that ended in 2006, Nepal remains a fragile state with major political challenges. The effects of the conflict have been particularly severe in rural areas, where the majority of the poor live. The peace-building process continues, a new constitution is in progress but is stalled (as of May 2012), and state restructuring (including further decentralisation) is on the agenda.

Long-standing political instability and historical and deep-rooted discrimination have fuelled high levels of poverty and exclusion. Over 55% of the population live under the international poverty line of \$1.25/day and are extremely vulnerable to economic, health, social and climatic shocks. The economy remains largely rural (80% of households) with forests integral to the agriculture, livestock and water systems on which the poor depend. Agriculture and forestry together contribute 32% of the total GDP of the country. Management of forests through Community Forest Users Groups (CFUGs) is one example of a decentralized approach and has been commended as successful in preventing forest degradation and improving livelihoods. By convincing the government to hand over forest resources to communities, the benefits to poor and excluded groups from forest access have increased significantly.

Despite the critical importance of forests for livelihood security, only 35% of the population have forest use rights under community-based forest management regimes. Forest degradation and deforestation has been largely halted in the 25% of Nepal's forest area that is covered by such regimes. The remainder of the forest that is under government control is largely unmanaged and suffers from degradation and deforestation (currently over 1.7% per year). An estimated 15% of Nepal is covered with trees on private land. There is scope to increase the economic benefits from both this and public forest.

As a mountainous country, Nepal is being disproportionately affected by climate change, with many communities already feeling its impacts. Poor people are most vulnerable due to their dependence on fragile natural resources and their limited livelihoods diversity. Forestry interventions provide a practical way of helping the poor adapt to these changes in three ways. Firstly, improved local forest management reduces the climatic impacts on watersheds and local micro-climates. Secondly, the improved livelihoods and empowermentⁱⁱⁱ that are the two main benefits of community forestry allow the rural poor to diversify away from highly climate vulnerable subsistence agriculture. Thirdly, as community forestry increases the amount of carbon locked^{iv} up by trees it can attract climate finance, which can then be used to help support additional community adaptation activities^v.

Feasibility of a DFID Intervention

The Multi Stakeholder Forestry Programme - MSFP- will build on the achievements of the past 20 years of forestry work supported by the UK, Switzerland and Finland. These have had significant impacts in reducing poverty, and in building the capacity of community forest user groups, the

government and non-state actors, in order to enable them to better govern forests in a sustainable way.^{vi} DFID, SDC and Finland have strongly overlapping development priorities in Nepal. All three cooperation strategies identify local governance, sustainable natural resources management, gender and disadvantaged groups as intervention priorities.

The MSFP programme will scale up community-based forestry activities to cover the 61 districts (out of 75) where forestry is relevant, with focused activities in 35 districts in the middle hills and southern plains (the *terai*). It will harness the economic potential of forests under community, private or government management. MSFP will expand the role of forestry in helping Nepal adapt to climate change and mitigate its impacts, and will build stronger linkages between practice and policy.

Section A: Detailed Output Scoring

Output 1: Government and non-state actors¹ jointly and effectively implementing inclusive forest sector strategies, policies and plans.

Output 1 score and performance description: B

1.1 Multi-stakeholder National Forest Entity establishment is facilitated and functional in line with the GON approach paper (2010) approved by National Planning C.

1.2 National Forest Sector Strategy and other relevant forest sector policies, plans and guidelines preparation and/or revision processes initiated by GON through multi-stakeholder approach are facilitated.

1.3 Government and non-state actors in multi-stakeholders structures have optimised capacity for forestry sector governance and implementation at different levels.

Progress against expected results:

A Programme Coordinator's Office has been established in the Ministry of Forests and Soil Conservation (MoFSC).

A Multi Stakeholder Steering Committee is also being established with Government of Nepal, donors, civil society and private sector representatives to support this Outcome and the overall programme.

MSFP annual plans (Yearly Plan of Operations) have been finalised for the current financial year and MSFP implementation procedures finalised. This has included regional forestry sector planning in the Midwestern and Western regions.

Activities related to review of the Master Plan for the Forest Sector and related policies and the development of a national forestry strategy are led and under consultation with stakeholders by the MoFSC.

Recommendations:

The main issue at present is a thorough review of the Master Plan, and past and current policies and strategies, using a multi stakeholder approach and thus developing a new national forest strategy in a joint way with government and civil society groups.

¹ 'Non-state actors' comprises civil society, NGOs, communities and the private sector

Donors will need to continue to influence GoN to increase engagement in MSFP and to ensure that the Programme Coordination Office is permanently and fully staffed.

Impact Weighting (%): 10%

Revised since last Annual Review? N

Risk: High

Revised since last Annual Review? N

Output 2: Private sector (farmers, entrepreneurs, and financial institutions) increase investment and jobs in the forestry sector.

Output 2 score and performance description: C

2.1 Potential and constraints of private sector investment jointly identified by the private sector and other stakeholders.

2.2 Lasting business partnerships established between private sector, local forestry groups, and farmers for forest-based enterprises.

Progress against expected results:

Start-up activities are underway. This includes additional advisory support to review private sector engagement strategy in forestry and drafting terms of reference for a study on the potential and constraints of private sector investment in forestry.

One workshop was held with 25 private sector stakeholders, including entrepreneurs, farmers, forest officials, sharing issues and options on private sector engagement in forestry in Nawalparasi district, *Terai*.

Recommendations:

Further work on the private sector component is needed so as to establish a good link between other components including climate change. Forestry sector's contribution and potential needs to be explored and an enabling environment created through MSFP.

A planned review of the Services Support Unit (SSU) needs to include consideration of increased internal expertise on private sector issues.

Impact Weighting (%): 15%

Revised since last Annual Review? N

Risk: Medium

Revised since last Annual Review? N

Output 3: Rural communities – especially poor, socially excluded and climate vulnerable people and households - benefit from local forest management and other investments.

Output 3 score and performance description: C

- 3.1 Local forestry groups managing and accessing more and better forest resources.
- 3.2 Local forestry groups and multi-stakeholder structures practice good governance.
- 3.3 Poor, disadvantaged and climate vulnerable households receive targeted goods and services (including finance) from local forestry groups and multi-stakeholder structures.
- 3.4 Local forestry groups implement plans and constitutions that reflect sustainability and improve climate resilience.

Progress against expected results:

The bidding process for an implementing agency was subject to interference by civil society groups. Although the process followed an internationally accepted procurement process with SDC, GoN, DFID and Finland on the panel, civil society groups from the MSFP design phase lodged complaints about the transparency of the selection process. They subsequently indicated that they would not work with the preferred bidder, Rupantaran Nepal. The award of the tender was put on hold and then, after much discussion between donors, cancelled.

MSFP has been subject to negative press coverage in both the Nepali and English media over the past few months, including “donor-bashing” on aid modalities, with potential reputational risk to DFID.

Limited district-level activities have therefore taken place, as implementing agencies are yet to be identified. Baseline creation in districts is underway.

However, the following progress was made:

- Rapid contextual study for 5 new districts being started.
- Rapid contextual study for thematic districts – procurement process will be started soon.
- Implementation of some MSFP activities (plantation, capacity building etc.) has started on-the-ground through District Forest Offices in three districts.

Recommendations:

A new bidding process for programme district implementing agencies is to be completed by December 2012.

Risk analysis and proper safeguards need to be in place prior to delivery of some MSFP activities through MFSC and other mechanisms to provide implementation and keep momentum on ground.

Impact Weighting (%): 50%

Revised since last Annual Review? N

Risk: High

Revised since last Annual Review? N

Output 4: Forest and trees sustainably managed and monitored by government, communities and private sector and climate resilient.

Output 4 score and performance description: C

4.1 Forests and ecosystem products and services restored, managed and enhanced scientifically.

4.2 Climate change and forestry monitoring capacity, knowledge and information management developed and applied.

Progress against expected results:

Baseline work in programme districts is underway;

Awareness-raising activities have taken place on climate change adaptation for 110 forest technicians and forest users in Nawalparasi district;

65,000 tree and fodder species have been planted in a community forest and public land in Nawalparasi;

10ha of degraded forest in community forest in Dang district has been planted;

Stakeholders have been better informed better about MSFP through an official website, and a documentary about MSFP has been prepared reflecting perspectives of stakeholders on its design process;

Forestry information-sharing has been strengthened with the setting up of an information centre in Pokhara regional forest directorate premises.

Recommendations:

The bidding process for programme district implementing agencies is to be completed by December 2012.

MSFP should look to deliver some MSFP activities through MFSC and other mechanisms to provide implementation and keep momentum on ground.

A planned review of the Services Support Unit (SSU) needs to include consideration of increased internal expertise on climate change issues.

Impact Weighting (%): 25%

Revised since last Annual Review? N

Risk: Medium

Revised since last Annual Review? N

If the project involves more than 4 Outputs please copy the box above and paste below.

Section B: Results and Value for Money.

1. Progress and results

1.1 Has the logframe been updated since last review? N

1.2 Overall Output Score and Description: C- Outputs substantially did not meet expectation.

1.3 Direct feedback from beneficiaries

Overall, both government and civil society groups have appreciated the multi-stakeholder approach of the programme. However, at central level, the programme faced some challenges in bringing together civil society groups to participate in the multi stakeholder process. This was primarily due to civil society groups competing with each other to take up roles in the programme's Multi Stakeholder Steering Committee and district level implementation which led to delays in smooth implementation. There was some media attention around these issues.

The reaction of some civil society groups has been disappointing, and DFID, SDC and Finland have expended much effort to re-build relationships, resolve the issues and find a solution with civil society groups.

1.4 Summary of overall progress

Progress has been slower than planned with the need to re-start the procurement process for implementing agents and strengthen mechanisms to ensure multi-stakeholder 'ownership'. Progress has also been hampered by on-going political instability, an initial lack of GoN engagement, and the current capacity of the SSU to manage outcome delivery.

SDC, with DFID support, have put much effort into ensuring MSFP gets back on track. Work to address problems has involved much time and energy by all parties including heads of DFID and Swiss Embassy. A number of high-level meetings took place to resolve the tender deadlock.

Progress at the centre and with Outcome 1 is underway with an approved Yearly Plan of Operations. Outcome 2 is being addressed with a scoping study to look develop a private sector engagement strategy in the forest sector. In addition consultants are working on the baseline for the overall programme and work in 5 additional geographical and thematic districts is being scoped out.

1.5 Key challenges

Nepal entered a new period of political instability following the dissolution of Nepal Constituent Assembly in May 2012. Many of the risks identified in the MSFP Business Case have been quickly realised. Key challenges:

- Political uncertainty in Nepal;
- Constant changes in GoN staffing at high level as well as district-level staff and positions are vacant in remote districts;
- Capacity of SSU to deliver complex programme (this is currently being addressed);

- Lack of new Constitution and information on the establishment of a federal states system;
- Escalated illegal logging, deforestation and degradation, particularly in *terai* and *churia* regions;
- Threat of Government to promote an amendment to the Forest Act and thus reduce its efficacy to community user groups;
- High civil society expectations as part of a multi sectoral process in MSFP;
- Longer than anticipated transition of UK and Swiss forestry programmes to a new multi-stakeholder forestry programme.

1.6 Annual Outcome Assessment

This has been a difficult start to the new Multi Stakeholder Forestry Programme in a time of political instability in Nepal. SDC, as lead implementer, have made great strides to fix inception problems. DFID has been supportive of this, and this has taken up much DFID senior management time.

There has been limited progress with policy work on the new forestry strategy and setting up the multi stakeholder steering committee. However, it has taken significant time for MSFP to take off, with a reduction in field level support provided by the previous DFID forestry programme (Livelihoods and Forestry Programme). The hiatus in support to poor people after 10 years of successful UK community forestry support is disappointing and not without wider reputational risk for DFID.

DFID will continue to monitor results delivery and risk, and will support SDC, as administrative lead, in ensuring that programme delivery gets back on-track.

2. Costs and timescale

2.1 Is the project on-track against financial forecasts: N

2.2 Key cost drivers

Contracts with local NGOs to support local forestry groups (community forestry user groups, public land management groups, collaborative forestry groups, etc.) are the main costs. This is a well proven and cost effective delivery mechanism that uses low-cost local NGOs to give poor people the use and management of valuable forests. These providers are low cost, but of variable capacity. Improving the performance of these service providers is an important element of the programme, which will require specific training activities to be provided. The Services Support Unit will be responsible for implementation monitoring to assess improvements in service providers' performance and adapt their training support as capacity develops.

2.3 Is the project on-track against original timescale: N

Agreement with the Government and signing of a Joint Funding Agreement took longer than expected. Field work has also been delayed in programme districts due to the extended tendering process.

3. Evidence and Evaluation

3.1 Assess any changes in evidence and implications for the project

There have been a number of changes in the forest sector in the past year with a noticeable increase in illegal logging, encroachment and degradation of forests in *terai* and *churia* regions and increased media highlights of the same. This is often considered usual in the context of political instability. However, the rate at which this has happened is alarming. As the government constituted Parliamentary Committee on Natural Resources Management reported in November 2011, the rate of deforestation in 2011 is perhaps the highest in 30 years in Nepal.

DFID's Livelihoods and Forestry Programme dealt with this issue until now but is now winding down. However, forest governance is at the heart of the multi stakeholder forestry programme and so the issue is well recognised and will continue to be tackled.

DFID conducted a fiduciary risk assessment of the forestry sector in 2011 and the fiduciary risks and challenges have been agreed with the Ministry of Forests and Soil Conservation. This needs to be taken forward with a more detailed MSFP-specific FRA both at central and district levels and agreed with partners including SDC and GoN to implement action plans.

3.2 Where an evaluation is planned what progress has been made?

No evaluation planned at present but MSFP Support Services Unit will submit an annual evaluation report in January 2013 as specified in the SDC Delegated Agreement.

A baseline survey in programme districts is presently underway and will inform the monitoring and evaluation strategy for the programme.

4. Risk

4.1 Output Risk Rating: High

4.2 Assessment of the risk level

High – because of the changed overall political context, the pressure exerted by civil society groups/individuals on adhering to a multi stakeholder approach, and the likely high fiduciary risk for having to involve multiple implementing agencies in the future.

Prevailing weak governance allows for increased corruption and lawlessness in the forestry sector.

Programme risks are being monitored on a monthly basis by SSU. DFID also retains a sharp focus on risks as part of the DFID Nepal Risk Matrix.

4.3 Risk of funds not being used as intended

Due to the slow start-up of the programme, programme funds against the forecast have not been utilized. Only a small cost related to establishment of Services Support Unit and Outcome 1 has been utilized.

A fiduciary risk assessment of the MFSC and prospective implementing partners conducted in 2011 concluded that current practices in the Ministry and partners were risky. These risks will be addressed during the next course of implementation of the programme.

4.4 Climate and Environment Risk

MSFP aims to support community forests to capture carbon and so is potentially positively affecting mitigation issues around climate change. In addition the programme will mainstream climate change adaptation through community-based planning and thus reduce the vulnerability of communities at risk to impacts of climate change. Both mitigation (carbon storage and capture, Reducing Emission from Deforestation and Forest Degradation) and community-based adaptation planning, as achieved from the Livelihoods and Forestry Programme, will be continued and scaled-up in the MSFP.

5. Value for Money

5.1 Performance on VfM measures

MSFP is a pooled programme with SDC and Finland. This offers improved VfM by reducing the number of forestry programmes in the country and increasing the scope for negotiations with service providers. In its full implementation stage on the ground, MSFP is expected to contribute to reducing the number of people in poverty by 1.7 million over ten years in 35 districts (approximately 5,000 per district per year). The Livelihoods and Forestry Programme has good evidence that this is achievable.

5.2 Commercial Improvement and Value for Money

SDC do not charge a management fee, which in other programmes are 2-3% of the programme costs. As set out in the economic appraisal this approach reduces the overall management cost of the programme by around 50% when compared with the stand alone project approach.

However, risk analysis of delivery through SDC identified a potential risk of loss of influence in the sector if DFID is not leading. This has been mitigated by the secondment of a senior DFID Forestry Adviser to act as the 'Donor Focal Point' for the programme on behalf of the three MSFP donors.

5.3 Role of project partners

MSFP merits being a country-led programme involving all the major government and non-government stakeholders. MSFP is the result of the move to harmonisation of forestry activities between three key donors, UK, Swiss and Finland. MSFP also ensures close coordination with other donor programmes in the forestry sector.

5.4 Does the project still represent Value for Money : Y

However, implementation through SDC was expected to reduce DFID of oversight and staff time. Delays in programme approval by the Government, subsequent delays in establishing the Programme Coordinator's Office, and selecting Implementing Agencies has seen an increase in DFID staff time.

5.5 If not, what action will you take?

6. Conditionality

6.1 Update on specific conditions

A joint donors meeting held in July 2012 has agreed to:

- 1) Redesign the tendering process of the programme districts and propose smaller mandates to facilitate partnerships between as many eligible civil society groups to implement the programme at district level;
- 2) Assess and strength PCO and Services Support Unit's capacity particularly in managing the multiple contracts and the work related to the private sector and climate change.

7. Conclusions and actions

The Multi Stakeholder Forestry Programme was formally approved in January 2012. The new programme is currently in initiation with activities being geared up to linked to the establishment of a Programme Coordinator's Office with the Government and selecting Implementing Agencies for district-level work for the new programme. The delayed transition to the new programme has meant that the Livelihoods and Forestry Programme has been extended (closing formally in December this year) with project activities continuing whilst the new programme takes shape.

Progress has been slower than planned, and political instability, an initial lack of GoN engagement, and the capacity of the SSU to manage delivery have all played a part. SDC have put much effort into ensuring MSFP gets back on track and all three donors have worked tirelessly to resolve the issues.

In the coming year, the programme will be operational in earnest with multiple partners and institutions involved in its implementation. This will take careful coordination and management to mitigate the risks and challenges mentioned above – not least those in the new political context of Nepal and the programme's new and innovative multi stakeholder approach with all key players in the forest sector.

DFID's key objective remains to ensure that beneficiaries at local level continue to get benefits and services, and that Nepal sustainably manages its forestry resource to boost economic growth.

8. Review Process

The annual review is based on desk review of key documents and consultation with partners including staff of the MSFP Services Support Unit.

ⁱEconomic Potential of Nepal's Forests and Forest Products. Livelihoods and Forestry Programme - LFP, December, 2008

ⁱⁱAn Assessment of Opportunities, Challenges and Possible Actions, Livelihoods And Forestry Programme - LFP, 2008

ⁱⁱⁱIncreasing the voice and influence of poor-&-excluded people in community forestry *tole* and interest groups in CFUGs. Livelihoods And Forestry Programme- LFP, February 2006

^{iv}Can Nepal Benefit from Forest Carbon Financing? An Assessment of Opportunities, Challenges and Possible Actions. Livelihoods And Forestry Programme -LFP, December 2008

^vParticipatory Tools and Techniques for Assessing Climate Change Impacts and Exploring Adaptation Options. Livelihoods And Forestry Programme- LFP, 2010

^{vi}Synthesis of Learning from Swiss and United Kingdom Funded Community Forestry Projects - J. Gabriel Campbell, January 2012. Based on: Nepal Swiss Community Forestry Project: SDC 1990 – 2011 and Livelihoods and Forestry Programme: DFID 2001 – 2011.