Financing Sustainable Forest Management in Nepal

Full Country Case Study Report

Forests are an important natural resource for Nepal. Approximately 70% of the population depends on forest for their livelihoods. Agriculture and forestry are estimated to constitute a third of the country’s GDP. Forests act as catchment areas that provide reliable sources of water for hydroelectric power generation, irrigation and domestic consumption.

Yet Nepal has been badly hit by deforestation. Total forest cover decreased from around 60% in the 1960s to just 29% in the 1990s. One of the reasons for such deforestation is the current financing gap for forests: although there are already innovative financing sources in place, there remains a lack of national policy to see these translated into practice in the field. Although forests once played an important role within the national economy, today they generate little cash income and budgetary contributions to forest management have been lowered as a result. In addition, cross-sectoral coordination between Nepalese ministries remains poor.

Political instability in Nepal has also indirectly caused deforestation. The implementation of Collaborative Forest Management (CFM) to meet the needs of forest product consumers living far from the forest itself is challenging in the absence of local elected governments. Due to disagreements, elections for local government bodies have not been held for the last decade. Functions of local government get carried out by civil servants who frequently have been transferred from elsewhere. Moreover, alleged involvement of forest officers in illegal activities is an increasing problem, as political instability and ongoing conflicts weaken law enforcement. Some people take advantage, resulting in accelerated deforestation, illegal forest harvesting and forest encroachment.

Community Forestry User Groups (CFUGs) have developed successful management systems for generating natural, human, financial and physical capital, as well as maintaining protected area ecosystems. The 1993 Forest Act provided special provisions in handing over National Forests to the local communities through these CFUGs. The general assembly of the CFUG is the supreme body to finalize a plan before it is submitted to the District Forest Office for approval. These plans are generally implemented by executive committees nominated by general assembly. In case the CFUG committee does not operate as per the approved operational management plan, the government may take back forest handed over to the communities. At present, CFUGs are managing more than one quarter of the total national forest area in a sustainable manner. However, poor people are not benefitting equitably, with elite capture being the biggest challenge. In addition, committee personnel of CFUGs are increasingly becoming involved in illegal forest tree harvesting activities themselves.

Community forestry has otherwise created a positive impact on livelihood development, through the growing supply of wild edibles available to the poor, increased availability of forest products to farmers, and more diversified employment opportunities. Furthermore, CFUGs have carried out many community development activities on their own, like construction of village trails, small bridges, community building, schools and temples.

The author put forward a number of recommendations to improve forest financing in Nepal. First, the various Community Forestry working plans should be reviewed for best
practices to create an effective monitoring mechanism of forest harvesting, and for all provisions of equitable benefit sharing to be fully implemented.

Private individuals would need to register their land as private forests to acquire benefits provisioned in the rules and regulations. Overall, the positive role of the private sector in implementing SFM is not acknowledged by public authorities. To improve the enabling environment for private sector investment in the forest sector, existing acts and regulations should be reviewed.

Donor agencies, multilateral & bilateral agencies are supporting new and innovative forestry programmes. Moreover, various trust funds have been established for financial flow, and there are ample opportunities to work with PES and Carbon trading schemes. It is recommended that a pilot scheme be initiated on PES in other protected areas of the country, which could result in greater support of PES in protected areas. REDD+ could be another funding source, especially as the country recently joined the UN-REDD programme.

Another forest financing mechanism could be to impose compensatory payment schemes upon profit-making agencies. For example, the Ministry of Forests and Soil Conservation imposed a five percent environmental tax on eight hydropower projects. However, the amount of profit generated by these projects and other sectors is unknown. To make this mechanism work, the amount generated so far needs to be investigated, and what portion has been invested back into forest resources.