

Simplified Approval Process

Annex 7: Risk assessment and management



RISK ASSESSMENT AND MANAGEMENT¹

1. Risk factors and mitigations measures (max. 2 pages)		
<i>Please describe financial, technical and operational, social and environmental and other risks that might prevent the project/programme objectives from being achieved. Also describe the proposed risk mitigation measures.</i>		
Refer to Annex 12 Environmental and Social Action Plan		
Selected Risk Factor 1		
Category	Probability	Impact
Technical and operational	Low	High
Description		
Local communities, including IPs, reject the proposed project activities.		
Mitigation Measure(s)		
The project design phase has included substantial stakeholder engagement (31 consultations), including with NEFIN, to present the project concept to all target stakeholders and receive their feedback, so that their climate-related challenges could be adequately addressed via the project activities. Implementation will follow the LLCA approach, with decision making on on-the-ground interventions devolved to local communities. The LLCA aspect of this project has also been raised for the local communities to appreciate their upcoming active involvement during the project implementation, and the resulting benefits for them. This is why the probability of this risk materializing is low.		
Selected Risk Factor 2		
Category	Probability	Impact
Technical and operational	Medium	Medium
Description		
Remote localities of project sites restrict access, causing delays or adding to costs.		
Mitigation Measure(s)		
The project budget has been prepared to account for regular travel to the remote geographic context of the targeted Karnali districts, leveraging NTNC's deep experience of working in this area. Besides, NTNC counts with a local presence in Karnali, and the experts selected to support the project implementation will be sourced as locally as possible, to minimize travel costs. Should the local climate conditions restrict access to the project sites, the PMU will implement adaptive management to be able to smoothly re-organize and prioritize activities until the project team can physically access the sites. These measures reduce the risk probability to low.		
Selected Risk Factor 3		
Category	Probability	Impact
Technical and operational	Low	Medium
Description		
Inadequate participation of women, PwDs, Dalits and IPs in decision-making processes		
Mitigation Measure(s)		
These are the most climate-vulnerable groups due to the social inequalities they face and their lack of resources. This is fully considered in the project design, as the GAP as well as E&S management plan duly account for the baseline situation and include specific actions per type of vulnerable category to ensure their meaningful participation to the proposed activities. A GESI and E&S experts will also be assigned to ensure the most vulnerable populations are fully engaged in this project's decision-making processes.		
Selected Risk Factor 4		
Category	Probability	Impact
Governance	Medium	Medium
Description		
Local governance challenges and limited coordination constrain sustainability and devolved decision-making.		
Mitigation Measure(s)		
The project design phase has focused on meeting and getting the approval and interest from the governance level of the local institutions to be involved. At Provincial level, the Ministry of Industry, Tourism, Forest, and Environment (MoITFE)		

¹ E&S-specific risks are included in Annex 12 "Environmental and Social Action Plan".

has expressed its commitment to monitor the project's impacts and replicate successful approaches efficiently. Locally, while several municipalities were visited during the project design, the implementation phase will include consistent engagement and support to all the 31 municipalities, and the CFUGs they house. The LLCA approach is particularly well-suited in the context of Nepal's federalism, and community-level governance structures play a central role in Nepal's devolved forest management system and are particularly significant in provinces such as Karnali, where forest dependent communities rely heavily on local institutions to manage forest resources, protect biodiversity, and support the sustainable use of NTFPs and MAPs. Finally, the PMU and PSC will play a key role in ensuring the project's governance remains locally-owned.		
Selected Risk Factor 5		
Category	Probability	Impact
Governance	Medium	Medium
Description		
The current political situation in Nepal since the September 2025 riots against the government has led to significant instability for the country, and the March 2026 elections will have an important impact, with potential changes across all administration levels, and their priorities.		
Mitigation Measure(s)		
To mitigate political and administrative instability, the project will anchor implementation within legally mandated community and municipal institutions and formal planning instruments (e.g. CFUGs, LAPAs, provincial frameworks), ensuring continuity regardless of electoral outcomes. In parallel, the project will maintain cross-party and multi-level engagement, flexible workplans, and phased decision points to allow activities and partnerships to be adjusted in response to post-election institutional changes without disrupting delivery. Moreover, given its long history and strong community support, supporting sustainable forest-based livelihoods is likely to remain a substantial priority for Nepal, and government changes should not affect this project's implementation.		
2. AML/CFT* and Prohibited Practices compliance due diligence assessment (max. 1 page)		
Category	Probability**	Impact***
ML/TF	Low	MEDIUM (5.1-20% OF PROJECT VALUE)
Sanctions	Low	LOW (<5% OF PROJECT VALUE)
Reputational	Low	HIGH (>20% OF PROJECT VALUE)
Prohibited Practices	Medium	HIGH (>20% OF PROJECT VALUE)
<p>*Anti-Money Laundering/Countering the Financing of Terrorism</p> <p>**H: High (has significant probability), M: Medium (has moderate probability), L: Low (has negligible probability)</p> <p>*** H: High (has significant impact), M: Medium (has moderate impact), L: Low (has negligible impact)</p> <p>¹ Money Laundering/Terrorist Financing</p> <p>² Sanction prohibitions of the United Nations, or other relevant sanctioning authorities (including the World Bank Debarred List)</p> <p>³ In the context of Money Laundering/Terrorist Financing and Prohibited Practices</p> <p>⁴ Abuse, Conflict of Interest, Corrupt, Retaliation against Whistleblowers or Witnesses, as well as Fraudulent, Coercive, Collusive, and Obstructive Practices</p>		
<p>As an Accredited Entity (AE), NTNC ensures continuous adherence to fiduciary standards consistent with its accreditation scope (project management for micro-sized, low-risk/Category C activities).</p> <ul style="list-style-type: none"> Zero-Tolerance Policy: NTNC applies a strict zero-tolerance approach toward fraud, corruption, and financial mismanagement, in line with Nepal's Prevention of Corruption Act and donor fiduciary requirements. AML/CFT Compliance: NTNC complies with both Government of Nepal and GCF Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) policies. Oversight Mechanisms: An internal Oversight Committee provides supervision over financial integrity, ethics, whistleblowing, and audit follow-up. Internal Controls: These include clear segregation of duties, mandatory monthly bank reconciliations (completed within one week of month-end), and physical verification of assets at least once per fiscal year. 		
3. Other potential risks in the horizon		
N/A		