

# REDD+ Payments and Benefit-Sharing Mechanisms in Nepal



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August 2010

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## List of Abbreviations

ANSAB	Asia Network for Sustainable Agriculture and Bio-resources
BNDES	Brazilian National Development Bank
CBOs	Community Based Organizations
CF	Community Forest/Community Forestry
CFUG	Community Forest User Group
COP	Conference of Parties
CSO	Civil Society Organizations
DFO	District Forest Office
DoF	Department of Forest
ES	Ecosystem Services
FCPF	Forest Carbon Partnership Facility
FECOFUN	Federation of Community Forest Users, Nepal
GHG	Greenhouse Gases
GoN	Government of Nepal
MFSC	Ministry of Forests and Soil Conservation
NGOs	Non Governmental Organizations
NRs.	Nepalese Rupees
NSCFP	Nepal-Swiss Community Forestry Program
PAF	Poverty Alleviation Fund
PES	Payment for Ecosystem Services
REDD	Reducing Emissions from Deforestation and Forest Degradation
R-PP	Readiness Preparation Proposal
RWG	REDD Working Group
UNFCCC	United Nations Framework Convention on Climate Change
VDC	Village Development Committee

## Acknowledgement

The authors would like to thank the NORAD REDD project and its partners, especially FECOFUN, for providing the opportunity to Forest Action Nepal for critical and constructive engagement in the design of REDD benefit-sharing mechanisms in Nepal. It is a pleasure to thank colleagues from the district FECOFUN offices, for organizing consultation workshops at the district level and providing logistic support for focus group discussions. Also, we hereby express our deepest appreciation and gratitude to local communities for their patience and valuable time in providing the necessary information and insights for this study through focus group discussions and interviews.

A sincere thanks to various stakeholders and expert consultants at the national and district levels for their valuable suggestions and insights which have helped in the drafting this report. We are indebted to Dr. Hemanta Ojha and Dr. Naya Sharma Paudel for their valuable inputs from the very beginning of the study through the submission of this report. We would like to express our appreciation to Mr. Harisharan Luintel for reviewing this report. We would also like to extend our gratitude to Mr. Bhola Bhattarai, Mr. Dil Raj Khanal, Mr. Nabaraj Dahal and Mr. Eak Rana for their suggestions and feedback throughout the course of this study on behalf of the NORAD REDD project.

Lastly, thanks to Dr. Kalpana Giri, Mr. Shambhu Dangal and Mr. Govinda Paudel for their editing and suggestions.

Authors

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## 1. Introduction

As a mechanism to incentivize reduced carbon emissions from deforestation and forest degradation, REDD negotiations have gained momentum globally. This section talks about the emergence of REDD and its progress in the negotiation process, both from international and national perspective. The objective of the study and methods applied during the research is being discussed later in the section.

### 1.1 *Background*

In recent years, forests have been recognized for their important role in helping to mitigate climate change through the global environmental service of carbon sequestration and storage (Skutsch and McCall, 2010). The idea of reducing emissions of greenhouse gas (GHG) entered into international negotiations at the 11th Conference of Parties (COP) meeting in 2005 in Montreal. This idea has now developed into the current concept of 'Reducing Emissions from Deforestation and Forest Degradation (REDD), and enhancing forest carbon stocks in developing countries (REDD+)' (Simula 2009, UNFCCC 2009). This forest-carbon offsetting mechanism would compensate developing countries for their effort to conserve and regenerate forests. There is a growing optimism both at international level and among developing countries on the benefits that REDD would bring. The Government of Nepal (GoN) has embraced the promise of REDD and is actively engaged in developing policies through the leadership of the REDD Forestry and Climate Change Cell (REDD Cell), an independent entity housed within the Ministry of Forests and Soil Conservation (MoFSC). It is created to formulate policies and facilitate 'REDD readiness' activities which received financing from the World Bank's Forest Carbon Partnership Facility (FCPF). The REDD Cell has already submitted a REDD Readiness Preparation Proposal (R-PP) to FCPF (MFSC 2010) and is currently working to draft an interim REDD strategy to guide the readiness process through 2013. A forum of donors, NGO's and community networks, known as REDD Working Group (RWG) of Nepal has been developed to design the architecture and policies on REDD.

Mechanisms for sharing REDD benefits or revenue across different levels and among various stakeholders is one of the most important components of the emerging REDD architecture. The Government of Nepal (GoN) has proposed the concept of a 'Carbon Trust Fund' (MFSC, 2010) for managing the money that Nepal receives for carbon offsetting initiatives such as REDD. However the structure and governance of such a fund is yet to be finalized. Similarly, there is a need for structures and mechanisms to distribute the amount received through such fund, or through direct voluntary market payments, among various stakeholders. Therefore, formulating viable, equitable and transparent mechanisms for ensuring equitable sharing of

benefits (i.e., carbon payments) is a vital aspect of REDD+ implementation in Nepal. There are several questions yet to be answered for devising such mechanisms, which include:

- What mechanism is needed at the national level to receive and manage the carbon funds?
- Who controls and manages such funds, and how is the stake of local communities ensured?
- How are the benefits distributed among various actors and what arrangements are needed to assess and monitor the contributions of these actors in carbon sequestration?
- How can carbon payments be integrated with livelihood support subsidies in order to make a pro-poor REDD mechanism?
- Who will monitor and verify the fund and the disbursements of carbon payments?

There is a need for devising a governance mechanism for REDD benefit sharing based on existing experiences of Community Forests (CF) in Nepal, other payments for environmental service mechanisms (such as watershed services in the context of hydro-power that already exists in Nepal), and emerging practices of REDD+ payment and benefit-sharing mechanisms in other countries. Moreover, such mechanisms should address the issue of equity in benefit sharing. For this task, Forest Action has assisted FECOFUN and its NORAD-REDD project partners to provide analytical inputs for devising a governance mechanism for REDD payments and benefit-sharing. Specifically, this task has focused on devising mechanisms for sharing carbon benefits from the national to the local (community) level, with little emphasis on distribution from international to national levels and from the community to individual households.

## ***1.2 Objective***

The main objective of the study was to draft a mechanism for sharing of REDD benefits or payments from the national to the community level, considering different levels of governance, multiple forest management regimes, and the diverse interests of stakeholders in Nepal. The specific objectives were to:

- Review international and national experiences on sharing of benefits from carbon projects and payments for ecosystem services (PES) schemes;
- Define the distribution of benefits from carbon payments at different levels (vertical) and among various forest managers (horizontal), focusing on the sharing of benefits with all types of forest user groups and fair, transparent and equitable sharing of benefits within these groups;
- Identify the relevant criteria for sharing of benefits at each level (e.g., carbon enhancement, livelihood, etc.);

- Identify potential institutions to participate in a benefit-sharing mechanism at each level, as well as their respective roles;
- Identify different parameters to be taken into consideration for REDD benefit sharing in Nepal.
- Consult diverse REDD stakeholders on the design of a benefit-sharing mechanism, considering the linkages between the national and community levels; and
- Propose a structure for the distribution and governance of the benefit-sharing mechanisms.

### **1.3 Methodology**

This study primarily draws on insights from international and national experiences on sharing benefits from various PES schemes and the distribution of development budgets. We have reviewed the mechanisms for sharing revenues generated from carbon projects and REDD benefits in Brazil, Indonesia and VietNam. Also, we have drawn lessons and insights from various mechanisms being practiced in Nepal to share and distribute development funds, including the sharing of revenue generated from protected areas with local communities; the sharing of hydro-power revenue with local governments in Kulekhani; and mechanisms for channelling funds from the Poverty Alleviation Fund.

The expert team then conceptualized the benefit-sharing options, scenarios, structures and institutions through a series of expert meetings and consultations. Subsequently, inputs, insights and opinions were collected from diverse stakeholders from the local to national levels. The methodological tools used in this study were: a desk review; an interactive discussion with expert team; consultative interviews; focus group discussions at the community level; consultation workshops in three districts (Gorkha, Chitwan and Dolakha districts) and at the central level (in Kathmandu); documentation and sharing of the findings with experts; and incorporation of their feedback into the final report.

In Gorkha, there were significant number of participants from various organizations and groups. People participating in the discussion involved secretary, treasurer and members of FECOFUN-Gorkha; district REDD program coordinators; a substantial number of REDD-network members; LRPs; local and national journalists; NGOs like ANSAB, Forest Action and central FECOFUN; District Forest Office officials, CFUG members and teachers.

Similarly, out of the total participants in Chitwan, the discussion comprised of various governmental, non-governmental organizations and others. Reporters and media persons from various local FM and newspapers; governmental organization representatives from District Forest Office, District Development Committee and VDC; district and central FECOFUN secretary, treasurer and members; REDD-network members; chairman and members of

federation of Indigenous Peoples; experts from NGOs like Forest Action and ANSAB, were among the participants during the workshop.

The district level discussion in Dolakha saw diverse groups of participants. Among the participants were representatives of major political parties like Rastriya Prajatantra Party, Nepali Congress, Communist Party Nepal- Unified Marxist Leninist and Communist Party Nepal (Maoist); government officials from District Development Committee, District Forest Office and District Irrigation Office; representatives from various NGOs like RED-cross, HERDEC, NSCFP, HIMAWANTI, district and central FECOFUN, ANSAB and Forest Action; various CFUG and REDD-network members; local FMs, journalists and other media persons; chamber of commerce and so on.

Intensive discussions were carried out with various CFUG's in three pilot regions. In Gorkha, around fifteen people from Mahalaxmi CFUG (out of which three were dalits and majority of others were IPs) and six from Kuwadi CFUG (out of which three were women) participated in the discussion in Gorkha. The discussion involved a diverse group of participants from dalits, indigenous people and women. Similarly, discussions were carried out with two CFUGs, ten from Jamuna CFUG (out of which five were women) and twelve from Pragati CFUG (out of which five were women) in Chitwan. The interesting aspect of the user groups in Chitwan was that, in Jamuna CFUG, all ten members of the user group involved in the discussion were Chepangs, in which, both men and women were present. Whereas, Pragati CFUG had a diverse group of participants, where, men, women, dalit, and IPs were present. Lastly, discussion was carried out in Dolakha with four different CFUGs. Nine members in Simpani CFUG (out of which three were women), eight in Bhitleri CFUG (out of which four were women), six in Thangsa CFUG (out of which three were women) and three in Barkhe Danda Pari CFUG (out of which two were women) were present during a series of discussion on REDD benefit sharing and possible scenarios on different aspects of benefit sharing. In all of the four CFUGs of Dolakha, diverse group of participants were present including, men, women, IPs and dalits. The names of the CFUG members have been incorporated in the annex. In addition to the CFUG, short discussions were held with the REDD-network representatives, even though the participation was less.

Separate district level consultations were conducted in three districts. The workshops had a significant number of diverse representation, where people participating, came from government organizations, NGOs, business sector, CBOs, media and political parties. The list of participants from three districts is present in the annex .....

However, the study has a number of methodological limitations. First, the proposed REDD benefit-sharing mechanism in Nepal could not get enough insights from international practices due to a lack of concrete and fully functional REDD benefit-sharing systems. Second, since the objective of the NORAD-REDD project was to devise a benefit-sharing mechanism for CF



only, the issues and context of other forest management regimes was not adequately covered. The study is constrained in terms of study coverage where the consultation workshops were organized among community forests and associated organizations. Thus, voices and concerns of forest management regimes other than community forests might not have been sufficiently represented in the study.

#### ***1.4 Organization of the report (.25 page)***

## **2. Contextual background on REDD**

Apart from its principle to reduce emissions, REDD was conceived to have co-benefits in the form of biodiversity and natural resource conservation as well. From a development perspective, REDD can offer large flow of financial incentives to the poorest amongst the poor, which can be found in the rural parts of the third world countries. This section explores the basic concept and evolution of REDD and range of issues, starting from the state of its negotiations, different financing options and the channel through which the payment can be carried out. In addition, different functions, roles and responsibilities of REDD mechanism is also being described in this section.

### ***2.1 Concept and evolution of REDD***

Reducing emissions from deforestation and forest degradation in developing countries is a mechanism that proposes to help mitigate climate change by 'paying developing countries to stop cutting down their forests' (Media pack), since forests have been estimated to contribute from 12-20% (Stern *et al.* 2006) of all carbon dioxide emissions. The concept of reducing emissions from forests was brought onto the international stage when Papua New Guinea and Costa Rica tabled a proposal for reducing emissions from deforestation (RED) at the 11<sup>th</sup> Conference of Parties (COP-11) meeting of the United Nations Framework Convention on Climate Change (UNFCCC) in Montreal in 2005 (UNFCCC 2009, Holloyay and Giandomenico 2009, Johns et al. 2008). It was later realized that forest degradation is a bigger problem than deforestation in some countries, so a second 'D' for 'forest degradation' was added and officially endorsed at the COP 13 meeting in Bali, Indonesia in 2007 (Simula 2009, UNFCCC 2009). Subsequently, it was recognized that, in addition to avoiding deforestation and forest degradation, there are also possibilities for enhancing carbon stocks through the conservation and restoration of forests (Angelsen and Wertz-Kanounnikoff 2009). This 'forest enhancement' was expressed as '+' and was incorporated into policy negotiations at COP14 in Poznan, Poland in December 2008. The concept is now known as "Reducing emissions from deforestation and forest degradation, and enhancing forest carbon stocks in developing countries (REDD+)" (UNFCCC 2009, Simula 2009, Wertz-Kanounnikoff and Angelsen 2009).

The core idea of REDD is to “reward individuals, communities, projects and countries that reduce greenhouse gas (GHG) emissions from forests,” which is considered one of the cheapest and easiest means of reducing GHG emissions (Angelsen and Wertz-Kanounnikoff 2009). This idea has been embraced by many developing countries as a viable means of securing payments from industrialized countries to invest in their forestry sector. Developing countries want a firm commitment from the industrialized countries to finance the development of REDD architecture at both the international and national levels, as well as a commitment for a long-term funding. A concrete step toward such a commitment from developed countries came at a recent meeting in Oslo Norway in May 2010, where 50 countries met to conclude an agreement on financing and a framework to rapidly operationalize measures for REDD. While industrialized countries are striving to develop mechanisms to ensure the reduction of the effects of the GHG emissions in developing countries, international negotiations on mechanisms to curb this problem are still ongoing.

## ***2.2 State of REDD negotiations and financing options***

Due to the recognition of the contribution of forests in reducing GHG emissions, and the need to develop mechanisms for paying for such emission reductions, such mechanisms have gradually evolved and are being negotiated at the international level through the UNFCCC. However, the specifics of a REDD architecture, including financing options, are yet to be agreed upon (Wertz-Kanounnikoff and Angelsen 2009). A ‘draft decision’ on REDD was reached at COP 15 in Copenhagen. However, many details of the mechanism, including specific financing and funding principles and arrangements, are yet to be worked out. It is hoped that a comprehensive agreement on REDD will be reached at COP 16 in Cancun, Mexico in December 2010. However, one of the factors complicating the prospects for an effective REDD mechanism is the lack of an overall agreement setting clear targets and/or obligations for GHG reductions by developed countries. The “Copenhagen Accord” that resulted from COP-15 does not spell out any clear obligations for GHG reductions, but rather relies on voluntary commitments by individual developed countries. It is unclear whether the nations can come to a comprehensive legal agreement for designating, implementing and verifying emissions reductions at COP 16. To deal with such uncertainties, emerging mechanisms for financing REDD must be flexible and implemented in multiple phases. There are a number of proposals from different countries and organizations about the REDD financing mechanisms (Verchot, and Petkova 2009 and Parker et al. 2009). This section focuses on different financing options and the current state of negotiations on REDD.

There has been an ongoing debate about REDD financing since the concept emerged. There are two potential sources of REDD financing: government/donor (fund-based) financing and market-based financing. Government and donor (fund-based) financing can help support a country’s readiness and capacity for implementing REDD and help ensure social and ecological co-benefits. Market-based mechanism can provide direct incentives to forest managers to enhance their forest (carbon) stock. There seems to be a general consensus globally that a

combination of both sources—a ‘hybrid’ approach (Johns et al. 2008)—is necessary, at least in the shorter term, and that fund-based financing will be crucial for promoting effective REDD readiness (Vinna 2009, Verchot and Petkova 2009, Irawan and Tacconi 2009). International negotiations have thus far agreed on some important issues, such as the need for an effective global financing mechanism, and the need for flexible options between fund-based and market-based approaches (Verchot and Petkova 2009). However, there is still no consensus on the specific architecture of the funding mechanism and the appropriate balance of funding between these two basic sources (Wertz-Kanounnikoff and Angelsen 2009, Johns et al. 2008, and Irawan and Tacconi 2009). Furthermore, questions remain about how best to harmonize market-based and fund-based financing in the long run. In this study, we have taken this undecided matter as a limitation and have thus proposed different scenarios for a benefit-sharing mechanism in Nepal.

### ***2.3 Basic channels for funding REDD***

Potential benefit-sharing approaches differ according to both the source of funds, and the channels by which the funds reach their intended beneficiaries. As discussed above, the two main sources of financing for REDD are fund-based and market-based. Fund-based resources could include those from bilateral and multilateral donor institutions, as well as from international conservation and development NGOs. Market-based funds could include those from national governments, private corporations, various organizations or even individuals wishing to invest in carbon offsets. The main distinction between these two sources of financing is that fund-based resources are intended to support readiness and the ongoing efforts of countries to engage in REDD; while market-based resources represent direct payments (purchases) in exchange for the environmental service of forest carbon sequestration and storage.

There are numerous possibilities for the flow of payments from international buyers, investors and donors to the communities, governments and private landholders who manage forests, depending in part on whether these payments are fund-based or market-based. It is also important to distinguish between these two sources of funding, in principle and in practice, since they serve separate functions, as described in the preceding paragraph. For instance, fund-based payments would typically be channelled from bilateral and multilateral donor institutions and organizations to the national governments and then to sub-national entities and local communities to support the development of national-level REDD programs. They would be designated for different purposes and geographical areas depending on perceived need in contributing to a comprehensive and effective national REDD mechanism. Market-based funds could be channelled through the national government, or directly to a sub-national or community-based entity via a third party investor or “developer”. Funds distributed to the national government could either go directly to local communities (as in the Poverty Alleviation Fund model discussed below) or through a sub-national intermediary organization or developer. In contrast to the needs-based provision of fund-based resources, market-based funding would

be distributed primarily based on the performance of the recipients in increasing carbon stocks in their forests.

While most people agree that a combined fund-based and market-based financing scheme is needed in the short term, there are two basic possibilities in the longer term: (a) a continued hybrid scheme (though perhaps with decreased reliance on fund-based resources); or (b) the complete phasing out of fund-based schemes such that market-based financing also includes project development and administration costs.

Table 2.1 below illustrates the differences between a fund-based and a market-based approach to financing REDD, with respect to the sources, basis, channelling, uses, and recipients for each approach, respectively.

**Table 2.1. Comparison of fund-based vs. market-based financing for REDD**

<b>Aspect</b>	<b>Fund-based</b>	<b>Market-Based</b>
Potential sources of financing	Multilateral and bilateral donors, International NGOs, National government	Foreign governments International corporations Global financing mechanism (e.g. GEF)
Basis for financing	Need and/or targeted groups (e.g. community forestry, private landholders)	Performance-based (according to amount of carbon preserved/produced)
Channelling of financing	Government offices, International NGO offices, National and regional NGOs, Community-based organizations/federations	National carbon fund Intergovernmental transfers Direct project-based payments (e.g. voluntary market)
Uses of financing	Technical support, Capacity building, Readiness and awareness raising, Social mobilization and advocacy	Carbon payments Investments in forest management, community development projects, loans, income generating opportunities, etc.
Recipients	National government, facilitating organizations, community based organization/federations, local forest management groups	National government, project developers, facilitating organizations, local forest management groups, community members

Figure 2.1 below illustrates the basic alternatives for REDD funding channels. Note that these channels are not necessarily mutually exclusive, and could be complementary. In the figure, fund-based, market-based and mixed funding channels are indicated with blue, green and red colors, respectively.

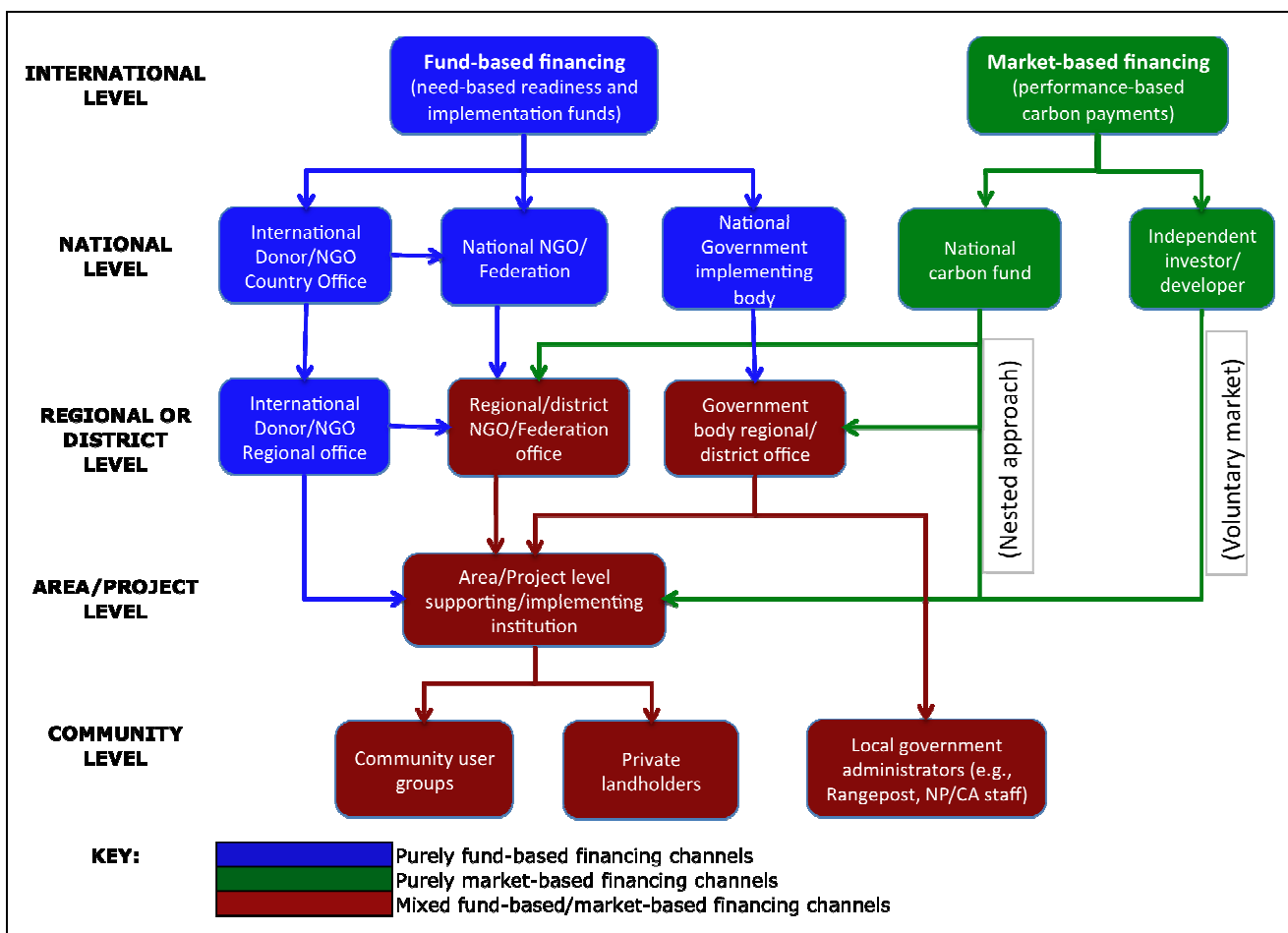


Figure 2.1 Possible channels for fund-based and market-based financing for REDD

*What are the basic functions and roles necessary for an effective REDD (benefit-sharing) mechanism?*

In order to benefit from REDD payments, different functions or roles and activities associated with those functions need to be fulfilled. The fundamental basis for compensation or payment of benefits is the measurement and reporting of changes in the carbon stock. Carbon measurement is followed by development of an inventory based on the carbon measured which is ultimately verified at the national and international levels. Based on the verification of carbon enhancements, the carbon payments are made to some kind of national carbon fund or (sub-national) institutions, depending on the policies developed by individual countries. As already discussed earlier in the report, there are two (complementary) financing options, donor/government funding and market-based funding. Regardless of the mix of funding options selected, the funds have to enter into a system, and ultimately reach the forest managers.

Different institutions, including governmental, non-governmental, civil society organizations, community-based organizations, and private entities can play a role in each of these activities.

But this also depends on the policies developed for REDD by individual countries. For instance, if a country adopts an intergovernmental fiscal transfer mechanism of benefit sharing, the government will play a dominant role. But, even within this system, other private or civil society institutions can play a vital role in decision making and monitoring on compliance. On the other hand, a multi-stakeholder approach for both decision making and fund management could be an option where a weak public-government relationship exists.

Table 2.2 outlines the main functions/roles needed in a REDD mechanism, as well as the basic responsibilities associated with each. The first three levels represent the carbon accounting function, which is essential for receiving payments and for sharing benefits (the second function). In addition to these two major functions, governance bodies are needed at various levels to ensure that payments and sharing of benefits is done in a transparent, accountable, and efficient manner.

**Table 2.2: Basic Functions, Roles and Responsibilities involved in a REDD mechanism**

FUNCTION/ROLE	RESPONSIBILITY
Carbon measurement, reporting	Measure and report carbon stock changes
Carbon registration and inventory process	Maintain records of carbon stock changes
Carbon stock verification	Verify reported/recorded measurements of carbon stock changes
Fund management	Receive and disburse payments to/from national carbon fund
Fund distribution	Ensure delivery of funds from national to sub-national and local levels
Fund/disbursement monitoring	Monitor receipt and disbursement of funds

Figure 2.2, below visualizes the interrelations between the carbon accounting function, the benefit-distribution function, and the governance function at different levels. It illustrates the functions, roles and relationship among the forest manager at the community level, the buyers or donors at the international level, and the various intermediary institutions. There are three key aspects to be considered with REDD payments: carbon accounting, benefit sharing, and governance of the whole system. The relationship starts with carbon monitoring and reporting from the forest manager level and the transfer of this information to the sub-national and national levels, where an inventory of carbon is developed. This information is verified at different institutional levels and ultimately gets transferred to the buyers and donors. Based on this carbon stock information, the payment is released from the buyers. The released funds will

then flow through different institutional levels, ultimately reaching the forest manager or the initial seller of the carbon.

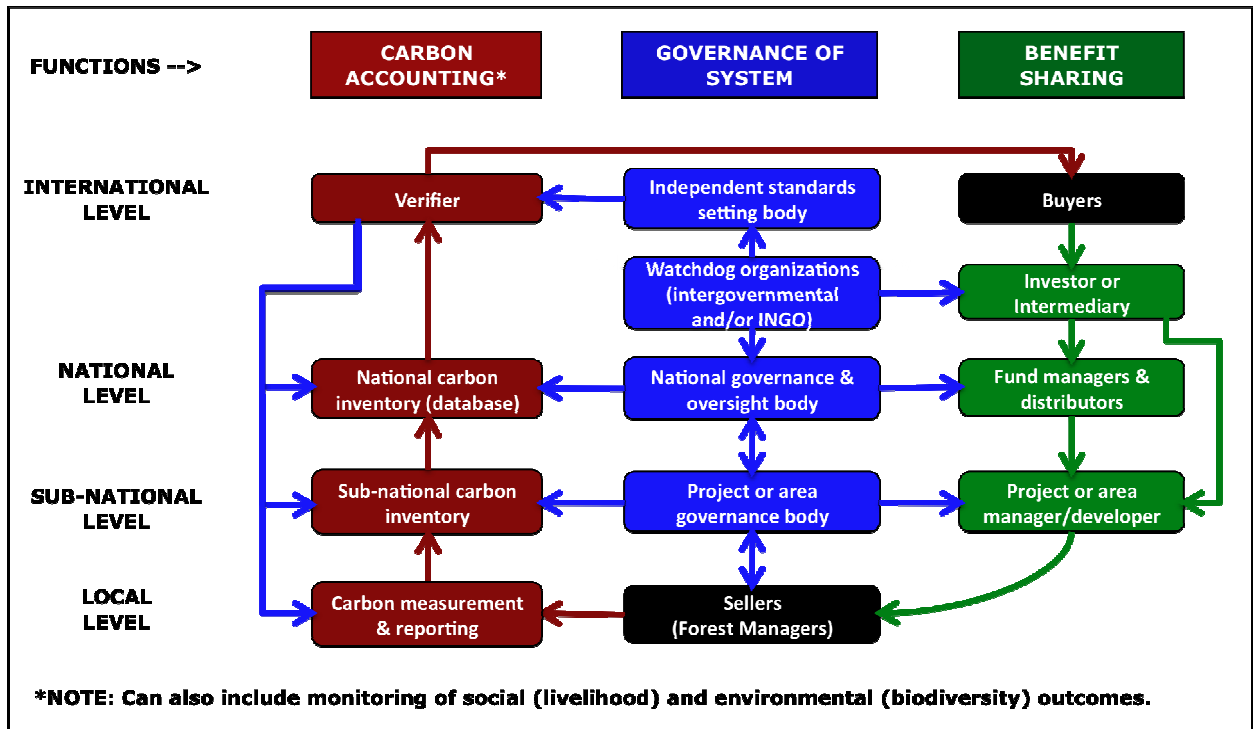


Figure 2.2: Interrelation between three basic functions of carbon accounting, benefit sharing and governance in a REDD scheme.

### 3. International models and National precedents for REDD benefit sharing in Nepal

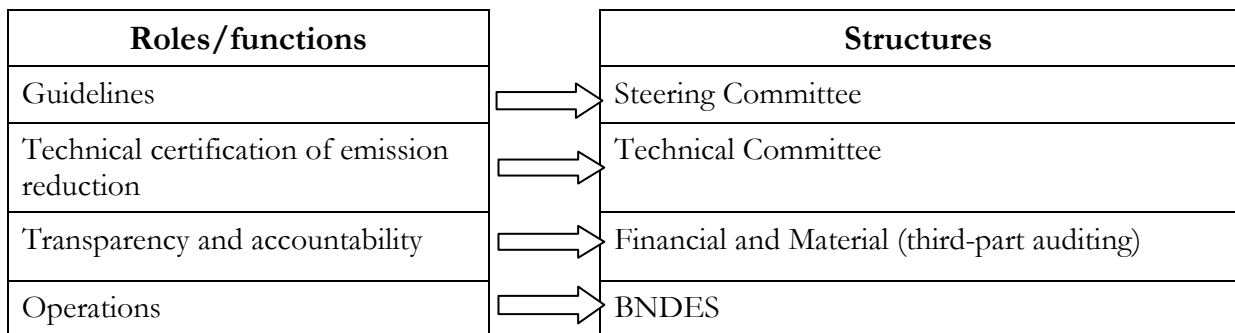
REDD is still in its evolving phase. There hasn't been any fixed decisions regarding the form and channel of payment, neither from the international donors or investors to developing countries, nor has there been any progress at the national level. But, there are several international and national benefit/revenue sharing schemes which has already come into practice. These practices can act as precedents for developing REDD strategies. This section tries to exhibit different benefit sharing practices in Brazil, Indonesia and VietNam, followed by revenue sharing schemes from Kulekhani hydropower plant, Poverty Alleviation Fund and Buffer Zones of PAs in Nepal.

### 3.1 International models for REDD benefit sharing

#### 3.1.1 Brazil—The Amazon Fund

REDD is seen not only as an effective way to reduce deforestation rates, but also to provide direct incentives to the indigenous communities, ranchers, farmers and other landowners in Brazil. The Amazon region has strong potential to lure carbon buyers to invest in forest conservation efforts. Considering this, Brazil is preparing policies and an institutional framework to implement REDD. The government has established the ‘Amazon Fund’ to manage the funds received from carbon payments. One of the strategic objectives of this fund is to demonstrate that international REDD payments can be effectively channelled to those who help to conserve forests. The Amazon Fund is a private fund which is managed by the Brazilian National Development Bank (BNDES) and has been investing in programs administered by both the government and non-governmental organizations to control deforestation and promote conservation in the Amazon region<sup>1</sup> (WWF, 2008). Any company, individual or foreign government interested in buying carbon offsets are potential sources of financing for the fund.

The fund is managed by a multi-stakeholder mechanism with representatives from the federal and state governments, NGO’s, Indigenous Peoples, scientists and civil society. The roles/functions and structure of the fund is showed in figure 3.1 below:



(Source:[http://www.reddtz.org/index2.php?option=com\\_docman&task=doc\\_view&gid=37&Itemid=18](http://www.reddtz.org/index2.php?option=com_docman&task=doc_view&gid=37&Itemid=18))

**Figure 3.1: Main bodies of the Amazon Fund**

In addition to a national funding mechanism, Brazil is adopting a project-based approach, such as the payment scheme under Juma Reserve Project (See Box 3.1). Under this project, Brazil has established a protected area for the sustainable use of forest in areas where deforestation rates are very high and, if the current agricultural and other land use practices were to be continued, it would leave the place totally deforested. Besides the environmental benefits of reducing

<sup>1</sup> WWF, 2008 was retrieved from <http://www.wwf.org.br/informacoes/english/?15423>



deforestation and sequestering carbon from the atmosphere, the Juma Project also aims to benefit the local community from a social standpoint. The benefits of the project will go for strengthening of different environmental monitoring and control activities, income generation from sustainable enterprises, community development, scientific research and education, and other PES-type programs within the forest area.

The Juma Reserve Project is considered as the first Brazilian project involving green house gas reduction from deforestation (RED). It has initiated the channelling of carbon credits, where funds are funnelled through the Amazonas Sustainable Foundation. The project also aims to receive sponsorships from commercial businesses like Marriott Hotel, where guests will be offered an option to offset their emissions at US\$ 4 per night. In contrast, the Amazon Fund receives international financial support, which will be used for conducting various projects to combat deforestation and develop policies and institutional infrastructure for REDD implementation. The project-based approach also provides direct incentives (payments) to local communities. The strength of the Brazilian model is that it is governed by a multi-stakeholder body with representation from government, civil society, the private sector and technical/scientific experts.

***Box 3.1. The Juma Reserve project benefit-sharing practices and implications for REDD***

*The case of the Juma Reserve shows one option for how a REDD scheme might work. This rainforest reserve in the Brazilian state of Amazonas is inhabited by a community that preserves the forest.*

*Every family living in the reserve has a credit card. The state government credits roughly US\$50 a month to each of the cardholders account as payment for their effort in keeping the forest intact. The financial support comes from big private groups interested in offsetting their carbon footprints. The scheme, the Programa Bolsa Floresta, is considered by supporters of REDD to be a model for halting tropical deforestation.*

*Source: [www.panos.org.uk/download.php?id=1029](http://www.panos.org.uk/download.php?id=1029)*

Brazil has conducted different activities that might serve as precedents for REDD activities in the days to come. In a similar type of study based on “stock flow with targets”, the IPAM (Amazon Institute for Environmental Research) carried out a simulation of how the benefit-sharing mechanism could work in different states of Brazil, on the basis of reductions in deforestation between 2006 and 2008. Under this simulation, Amazonas, the largest state with 98% of its original forest cover, would receive the most (25%); Mato Grosso, with high historical deforestation and only 55% of its original forest cover, would received the second most (23%); and the remaining benefits would be fairly evenly divided among other states (EDF, 2009). Thus, a performance-based payment system like the one in Amazonas could be a strong basis for Brazil’s REDD program.

## **Learning from Brazil (The Amazon Fund)**

**Multi-stakeholder involvement:** Amazon Fund is managed by a multi-stakeholder body, with representatives from the Federal and State Governments, NGOs, Indigenous Peoples, Scientists and the Civil Society. Representation of such multi-stakeholder body for decision making and BNDES itself involved in the auditing and verification of the application of the fund makes the working mechanism of the Amazon Fund transparent. Thus, it could be a source of learning for other REDD implementing countries to adopt a diverse decision making entity for REDD benefit sharing.

**Public-Private Partnership:** A growing number of corporations and investors have been investing in the Amazon Fund to buy their carbon offsets. Apart from the private investors, public funding sources are also emerging as potential contributors to the fund. An example of a public-private partnership in curbing carbon emissions can be ‘the Juma Reserve Project’. A different approach is adopted in the case of the Juma Reserve, where the Amazonas State and companies collaborate to raise funds for the project area.

**Governance:** Unique aspect of the Amazon Fund is the existence of a National Bank like BNDES, involvement of a third party to ensure transparency and accountability, participation of the Civil Society and Indigenous Peoples in the governing body, which can raise voices on behalf of their communities.

**Independent Monitoring:** An independent monitoring of the financial transactions and a third party auditing to ensure its transparency makes the Amazon Fund different from rest of the fund managing bodies.

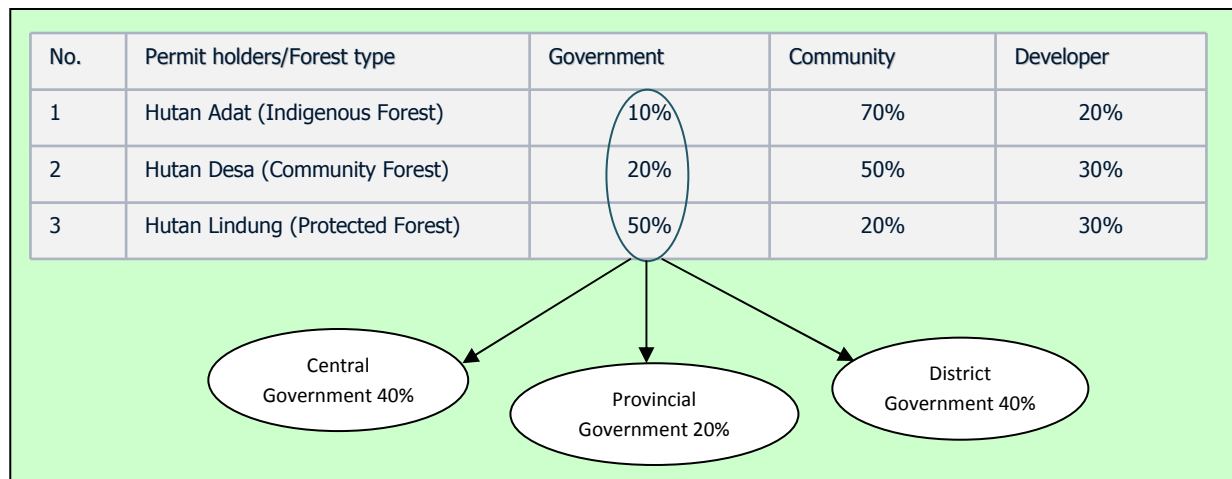
**Low Transaction Cost:** One of the principles of the Amazon Fund is to lower the transaction cost of the REDD payments. Since the Government of Brazil solely will have no or very less control of the fund, which makes the fund free from needless interventions. Lower the transaction cost, more money can trickle down to the community level, which can prove to be beneficial for the third world countries.

### **3.1.2 Indonesia—A proposed REDD benefit-sharing mechanism**

Indonesia has developed a benefit-sharing mechanism, in which the government of Indonesia will play a vital role in fund mobilization to the managers and users of different forest regimes. The various state agencies can play a vital role in providing checks and balances in the benefit-sharing mechanism. Different state institutions could support and coordinate the provincial, district and local agencies and encourage mutual accountability in managing REDD funds. The Ministry of Forestry is responsible for conducting all of the REDD activities in Indonesia. A working group on climate change was established within the Ministry of Forestry and has been

developing regulations to support REDD programs (Baker and McKenzie, 2009). Revenue-sharing schemes for REDD forest carbon projects have been released by the Ministry of Forestry. Based on this scheme, benefits will be shared according to the type of forest ownership (see figure 3.2 below).

Project areas are classified as Indigenous Forest areas, where 10% of the revenue would go to the government, 70% to the community, and 20% to the developer. In Community Forests, the government would receive 20% of the revenue, versus 50% and 30% for the community and developer, respectively. In Protected Forest, 50% of carbon payments would go to the government, 20% to local communities, and 30% to the developers. In all cases, the government's share would also be split among different levels of government, such that 40% would go to the central government in Jakarta, 20% to the provincial government, and 40% to the district government<sup>2</sup>. Thus, the breakdown of the revenue distribution depends on the type of forest, whereby community and indigenous groups receive a greater percentage where the community or Indigenous groups are involved in the forest management themselves.



Source: <http://carbonpositive.net/viewarticle.aspx?articleID=1602>

**Figure 3.2. Revenue Sharing for Forest Carbon Projects in Indonesia**

The Ministry of Forestry of Indonesia has been endeavouring to create synergy among the different institutions and organizations working on REDD, in order to avoid confusion and duplication of actions that might result in inefficiency. To enhance coordination, the government has formed a National REDD Working Group (NRWG) for Indonesia, which has representatives from various organizations. The concerns and voice of NRWG members will be on behalf of the institution or organization they represent. For instance, the representative from the Ministry of Finance will take a lead on the issues related to financing and the distribution of

<sup>2</sup> <http://carbonpositive.net/viewarticle.aspx?articleID=1602>

benefits from REDD. Similarly, issues on land use will be discussed and handled by the National Land Use Agency, the Ministry of Forestry and other related agencies.

### **Learning from Indonesia:**

**Governments Role in REDD Program:** The government of Indonesia will be playing a vital role in fund mobilization to the managers and users of different forest regimes. The Ministry of Forestry is responsible for conducting all the REDD activities in Indonesia. The various state agencies can play significant role in providing check and balance in the benefit sharing mechanism.

**Multi-stakeholder Working Group:** To enhance coordination, the government has formed a National REDD Working Group (NRWG) which has representatives from various organizations. Despite the involvement of various stakeholders in the working group committee, the government has a majority, due to which, the decisions made could be more in the interest of the government.

**Forest Management Regime and Revenue Distribution:** The breakdown of revenue distribution in some of the carbon projects in Indonesia depends on the type of forest regime. In other words, the revenue or the fund would be allocated to the respective groups or communities, who have been involved in the forest management.

**Involvement of a “Developer”:** A unique aspect of Indonesian carbon programmes are involvement of a developer. Their role could be crucial in terms of facilitating the entire REDD process including negotiation with the donors or the government. They get a certain share of the revenue obtained from the carbon projects, where the percentage of the share might vary depending on the forest management regime.

### **3.1.3 Viet Nam—A national financing mechanism for environmental services**

In the case of VietNam, DoF, within the Ministry of Agriculture and Rural Development (MARD) is responsible for coordinating and managing implementation of the REDD program. The country will be addressing deforestation and forest degradation through capacity building at both the national and local levels<sup>3</sup> (UN-REDD VietNam Program, 2009). At the local level, VietNam has been conducting REDD activities through pilots in two districts of Lam Dong Province. Multiple institutions have been involved in the process of REDD readiness in VietNam, including MARD, the Ministry of Natural Resource and Environment (MoNRE), the

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<sup>3</sup> UN-REDD VietNam Program, 2009 document was retrieved from <http://www.un-redd.org/Portals/15/documents/events/20090309Panama/Documents/UN-REDD%20Vietnam%20NJPD.pdf>

Ministry of Planning and Investment (MoPI), the Ministry of Finance (MoF), the State Committee for Ethnic Minority and Mountainous Area Affairs (CEMMA) and the Forest Sector Support Partnership (FSSP) (UN-REDD VietNam Program, 2009).

VietNam has recognized the rights of “ethnic minorities” who have a long history of association with their forest. In addition, the government has recognized 54 “ethnic minority” groups and established branch offices at the local level that consist of representatives from various ethnic groups. These branch offices are responsible for providing consultation and advice to the government on ethnic issues.

Viet Nam has three basic types of national-level financing mechanisms for ecosystem services:

- Regular government budget;
- Use of targeted funds; and
- Decentralized structure with a national “tax”.

### **Regular Government Budget**

Some benefit-distribution mechanisms in Viet Nam operate via inter-governmental fiscal transfers. Payments to central agencies and from the central government to sub-national government units occur within the regular government budget. Two types of national payment distribution mechanisms occur within this system (*UN-REDD, 2010*):

- A program approach: where central agencies receive a fixed budget and distribute the available funding to sub-national entities.
- An ecological tax: where funding depends on the actual performance of sub-national units in achieving environmental objectives.

### **Targeted Funds**

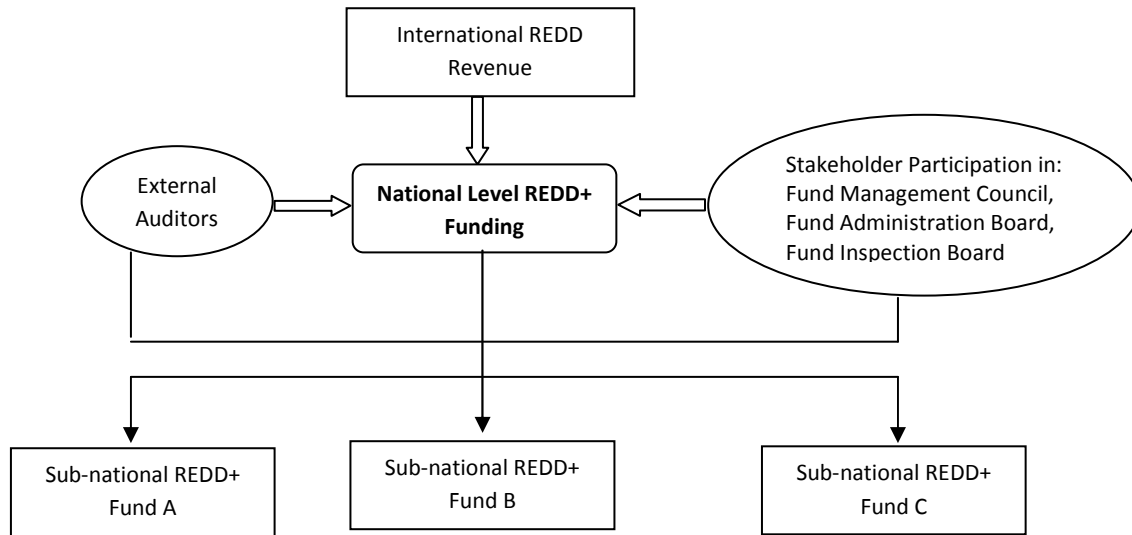
This type of funding mechanism depends less on annual budgeting and administrators have more autonomy in their financial operations. They can be government-owned, but still possess a semi-private status.

### **Decentralized Structure with National “Tax”**

Such a benefit-distribution system grants sub-national units with significant autonomy and assigns a greater regulatory role to the central government. In this case, sub-national governments can participate in the development of projects, charge a fee on projects under their jurisdiction, or not get involved with projects at all. An international example of this type of funding mechanism is Indonesia’s emerging carbon conservation architecture, which is comprised of elements of the national legal regime for the implementation of carbon conservation projects promulgated by the Ministry of Forestry.

In order to improve the accountability and meet international expectations, Viet Nam has developed an institutional structure for REDD+ funding. This structure incorporates financial auditing by external auditors who are internationally certified. Non-state actors, mainly from civil

society, are included in the fund management council, fund administration board and fund inspection board. These stakeholders will be involved in the decision making, discussion and monitoring of the use and distribution of REDD+ funds, both at the national and sub-national levels (UN-REDD, 2010).



Source: UN-REDD 2010

**Figure 3.3: Suggested institutional structure for REDD+ funding for Viet Nam**

Viet Nam has also established three different levels at which sub-national REDD+ fund should be established; option A (REDD+ fund established at national and provincial levels), option B (REDD+ fund established at national, provincial and district levels) and option C (REDD+ funds established at national and district levels). Until now, option B is conceived as a viable option since it involves all three levels of state administrations of Viet Nam (UN-REDD, 2010).

#### **Learning from VietNam:**

**Multi-stakeholder involvement:** In order to improve the accountability and meet international expectations, VietNam has developed an institutional structure for REDD+ funding. This structure incorporates financial auditing by external auditors who are internationally certified. Non-state actors, mainly from civil society, are included in the fund management council, fund administration board and fund inspection board. These stakeholders will be involved in the decision making, discussion and monitoring of the use and distribution of REDD+ funds, both at the national and sub-national levels (UN-REDD, 2010).

**Governments Role in REDD Program:** Ministry of Agriculture and Rural Development (MARD) is responsible for coordinating and managing implementation of the REDD program.

Multiple institutions have been involved in the process of REDD readiness in VietNam, which include, MARD, the Ministry of Natural Resources and Environment (MoNRE), the Ministry of Planning and Investment (MoPI), the Ministry of Finance (MoF), the State Committee for Ethnic Minority and Mountainous Area Affairs (CEMMA) and the Forest Sector Support Partnership (FSSP).

**Recognition of rights of ‘ethnic minorities’:** VietNam has recognized the rights of ‘ethnic minorities’ who have a long history of association with their forest. The government recognition of ethnic minority groups and establishment of branch offices at the local level shows the level of commitment from the government to ensure ethnic rights. Thus, inclusive participation of the minorities and IPs in the REDD process is one of the good aspects of VietNam’s REDD process. This might facilitate the overall REDD process in the country and avert conflict among the stakeholders in the days to come.

**Financing mechanisms for environmental services:** VietNam has a well established financing mechanism for environmental services which has already been explained above in detail. These mechanisms provide several options for REDD benefit sharing, in case one of them doesn’t work.

### ***3.2 National precedents for benefit sharing***

Benefit and revenue-sharing schemes are gaining popularity in Nepal and the GoN has started to acknowledge the role of rural communities in resource management and conservation. Due to this, some upstream communities are receiving compensation for their contribution in the management of forests and watersheds. Different types of payment mechanisms are being developed in Nepal to ensure that the ecosystem services are available in perpetuity for the well-being of society; and that the rural communities that have been contributing to resource conservation receive financial incentives for their efforts. Apart from the payment schemes for watershed management, there are other types of benefit-sharing practices in Nepal like the one within buffer zones of protected areas, where the revenue generated by the government is shared among the surrounding communities in exchange for their involvement in conservation activities. Lessons on fund sharing among rural communities can also be drawn from the practices of “Poverty Alleviation Fund”, an autonomous institution, which plays a key role in alleviating poverty in rural sectors of Nepal. Three examples of benefit sharing practices in Nepal are described in the following sub-sections;

3.2.1 Hydroelectricity revenue sharing in the Kulekhani Watershed

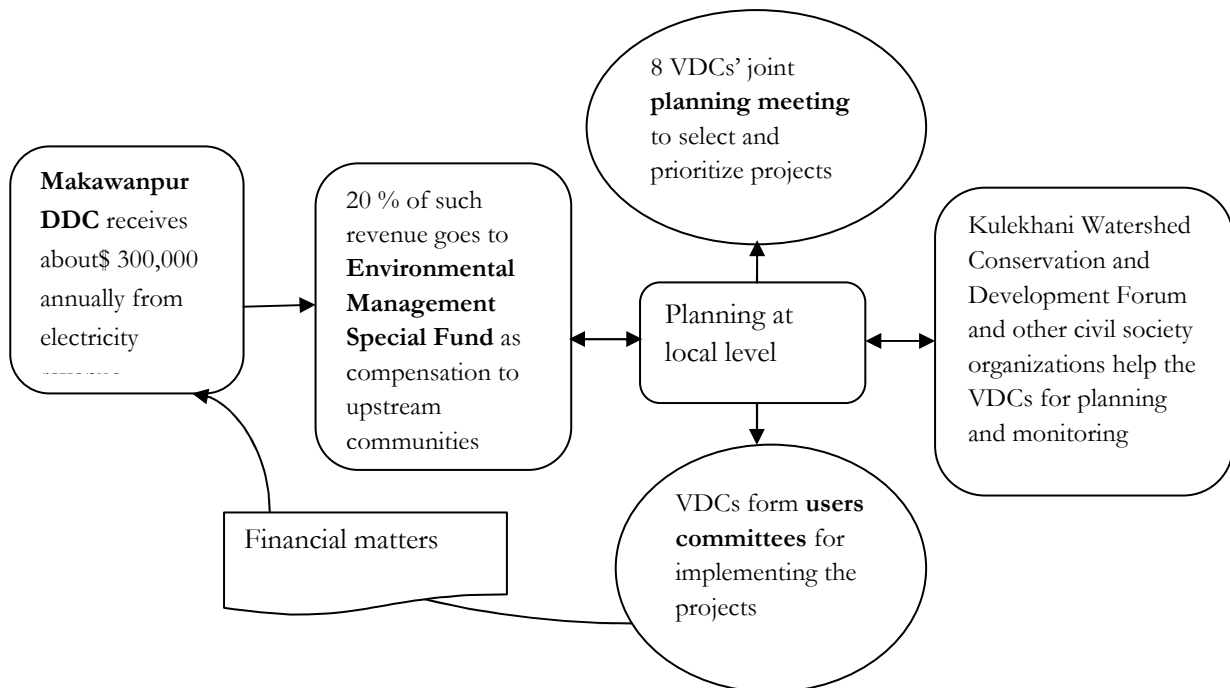
3.2.2 The Poverty Alleviation Fund, and

3.2.3 Revenue sharing within Buffer Zones (protected areas) of Nepal

### 3.2.1 Hydroelectricity revenue sharing in the Kulekhani Watershed

Makawanpur District is practicing a hydroelectricity revenue-sharing mechanism under the broader framework of PES. According to the Local Self Governance Act (1999) and its regulation, 12% of the total revenue of hydroelectricity paid by Nepal Electricity Authority to the government goes to the district hosting the hydroelectricity powerhouse. Under this rule, Makawanpur District has been receiving about NRs twenty five million a year. Before the current benefit sharing mechanisms, the District Development Committee (DDC) was using the money for general development purposes.

On the other hand, residents of the watershed surrounding the Indrasarovar reservoir, the primary water source for the Kulekhani Hydropower Project (with a capacity of 92 MW), have been demanding rights over the revenue received by the DDC. The logic behind this is that local communities should be rewarded for their efforts to conserve the watershed through sustainable management of the forests, which has generated two valuable environmental services to the hydroelectricity project: improved dry season water flow and decreased sedimentation to the reservoir (see picture below). After years of lobbying and negotiation, the district level stakeholders, including the DDC, agreed to the sharing of hydroelectricity revenue with upstream communities under the framework of a PES mechanism (see Figure 4.1). According to the Guidelines and Procedural Rules for sharing hydroelectricity revenue in Makawanpur district, 20% of the total revenue received by the DDC goes to upstream communities.



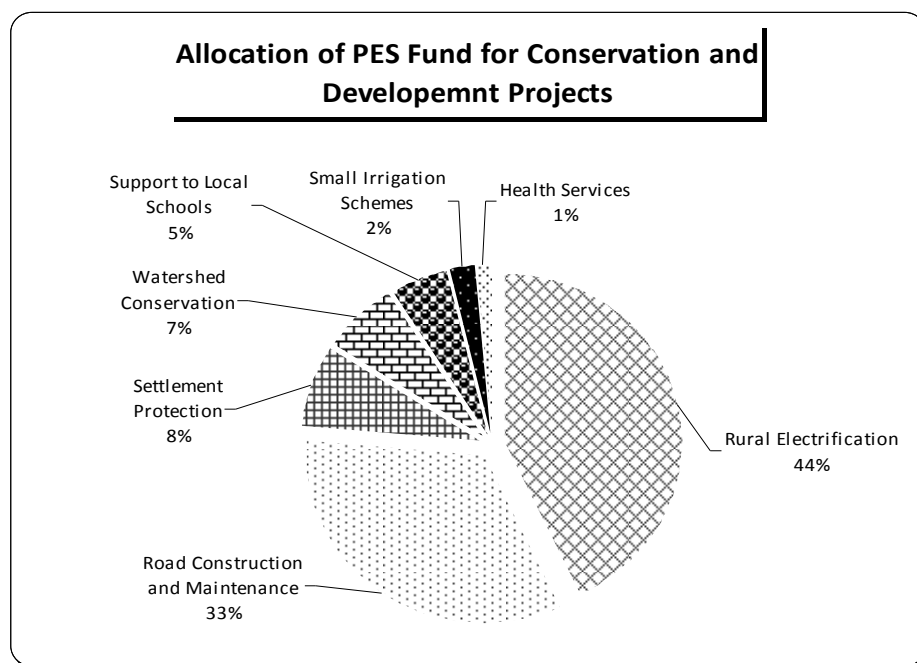
Source: Khatri 2009

Figure 3.4: Hydroelectricity revenue distribution in Kulekhani



The money is designated for use in conservation and development activities in the watershed area under a separate fund called the Environmental Management Special Fund (EMFS) governed by a multi-stakeholder forum at the district level, including representatives from the DDC, other government line agencies and representatives from local communities. Eight VDCs of the watershed area jointly prepare the annual plan of conservation and development projects and prioritize and submit to the EMFS for approval. Upon approval from the EMFS, the Village Development Committee (VDC) implements the projects locally. The eight VDCs of the watershed area have collectively received \$118, 802 from fiscal year 2006/07 A.D until last year (2008/2009 A.D). Figure 3.4 shows how this money has been used in various conservation and development activities.

The breakdown of expenditures (see Fig 3.5) suggests that the bulk of the funds have been invested in rural infrastructure projects like electrification, construction and maintenance of roads, and structures to protect the settlements. Very little money has been spent directly on conservation activities. In fact, to date, only 7% of the total expenses have been invested in watershed conservation activities and not a single rupee has been allocated for forest management. Since, watershed conservation activities conducted in the area excluded forest management; it may not be regarded as a true PES arrangement as it does not include measures for ensuring the investment of funds in, or verifying, the implementation of specific conservation activities to maintain the environmental services in perpetuity.



*Source: Khatri 2009*

**Figure 3.5. Use of Hydropower revenue for conservation and development projects in the Kulekhani Watershed area**

The case of Kulekhani has revealed that, although the benefit-sharing mechanism has provided additional financial resources to local communities to conduct development activities according to their own needs, it could not generate additional environmental services or contribute directly to the conservation of the forest and watershed in the upstream areas. This was due to fact that developmental activities like road construction using a bulldozer superseded conservation activities, accelerating soil erosion. The main reason behind this failure is that the mechanisms have not provided direct incentive to the resource managers. The CFUGs and other community-based organizations that have made a huge contribution to forest and watershed management have been systematically excluded from the PES mechanism. Furthermore, neither has the beneficiary of the environmental services, the Nepal Electricity Authority, been directly involved in monitoring, nor has there been any credible and effective mechanism for such monitoring. Another important reason for the dominance of development activities over environmental conservation is that the fund is managed under the Local Self-Governance Act and the activities are implemented by the DDC and VDC for whom development priorities such as road and other infrastructural construction, surpasses environmental conservation priorities.

These lessons from the Kulekhani case provide valuable insights for developing a REDD benefit-sharing mechanism in Nepal. The important lesson learned from Kulekhani case is that, the resource managers, particularly the forest user groups, should receive a direct economic incentive. Because, direct incentives to the forest user groups would provide alternative sources of energy, which in turn would restrain the pressure on the forest resources, and eventually, enhances the forest quality. There is also a need for specific policy to guide the distribution of benefits from the PES. In addition, there is a need for a multi-stakeholder body to monitor and facilitate the sharing of benefits and a non-governmental entity to administer the fund.

### **3.2.2 The Poverty Alleviation Fund**

Established in 2003, the Poverty Alleviation Fund (PAF) is an autonomous organization that is involved in mobilizing resources from donors and the government for poverty alleviation in Nepal. PAF adopts a demand-led community-based approach to alleviate poverty in which the target communities themselves have planned and prioritized their needs in order to allocate the resources. PAF has developed a direct funding mechanism for community-based sub-projects proposed by communities themselves through the bank (PAF official website).

#### **PAF funding mechanism:**

PAF finances 80 percent of the cost of all sub-projects at present, while the community themselves cover 18 percent of the cost (11 percent in kind and 7 percent in cash) and the remaining 2 percent are paid by other organizations (PAF Newsletter, 2006). The community based organizations (CBOs) need to prepare project proposals with the support of partner organizations (PO) and submit them to the PAF through the PO's. The proposal then needs to be appraised by a technical appraisal committee. PAF has the provision that the COs need to open two types of bank accounts: one is **non-operating** and the other is **operating**. After the

agreement is signed between PAF and CO's, PAF deposits the fund in CO's non-operating account. Then once the project proposals are agreed upon and the COs deposits their contribution (20 percent for infrastructure and 10 percent for income-generating activities), the bank transfers the amount to the operating account<sup>4</sup>.

However, there is a need for a detailed understanding about the level of desired goals that PAF has achieved so far, and how effective it has been in terms of alleviating poverty in Nepal. If PAF has really reached the poor community and has achieved poverty reduction in certain areas of Nepal, it could provide valuable insights for supporting local communities through REDD programs. Even though poverty reduction is not a primary objective of REDD, it is expected that REDD will also benefit the poor along with the fulfilment of its other objectives.

### 3.2.3 Revenue sharing within protected area buffer zones

There is already a mechanism for sharing revenues from protected areas with local communities residing within its buffer zone. A certain share of revenue generated from the national parks and wildlife conservation areas is allocated for the local community who have been residing in and around the area for years. The basis for this compensation is the resettlement of local communities and their contributions to forest conservation. Buffer zone management is focused more on meeting the needs of the people residing in and around the area, in order to decrease the pressure on the forest resources. Remarkable progress has been made since the launch of the buffer zone program, particularly in natural resource conservation, expansion of alternative energy programs, and human resource development at the community level (Bajimaya, 2006).

#### ***Box 4.1. Provision for using PA benefits under Buffer Zone***

- *Conservation activities: 30%*
- *Community development: 30%*
- *Income generating activities: 20%*
- *Conservation education: 10%*
- *Administration cost: 10%*

There is a legal provision that around 30 to 50 percent of the revenue collected should be shared with the local community, with the remainder going to the government of Nepal. The local community can invest such money in conservation and development activities as prescribed in the Buffer Zone Regulation (Buffer Zone Guidelines, 2056) (see Box 4.1).

Revenue sharing within the buffer zone areas is a win-win scenario for both the government and local communities. The communities receive incentives for their contribution to forest conservation and the government benefits from forest and resource conservation. The benefits are handed over to the Buffer Zone User Committee in the form of cash. The user committee then allocates the money for different purposes (see box 4.1), such as income generation and

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<sup>4</sup> [http://www.pro-pooragri.net.np/Partner\\_Organisation\\_paf.php](http://www.pro-pooragri.net.np/Partner_Organisation_paf.php)

conservation programs. These programs target certain groups of people like *Dalits*, poor and underprivileged people within each community.

The government of Nepal has also given consideration to the traditional rights of some groups of people within the buffer zone. For instance, communities who are totally dependent on fishing for their livelihoods get a permit to fish for a certain period of time every year, which are their main occupation and a major source of livelihood. Similarly, local communities living in and around the buffer zone have access to harvest some forest resources (like thatch grass), for a limited time period every year, which they use it to rooftop their houses. Revenue-sharing practices within the buffer zone areas can provide valuable insights on benefit-sharing for REDD in Nepal.

The information given above on revenue sharing practices in Nepal is compared below in table 3.1.

**Table 3.1: Comparison of different national precedents for REDD in Nepal**

Aspect	Kulekhani Watershed	Poverty Alleviation Fund (PAF)	Buffer Zone Program
Source of funds	Hydropower revenue royalties	Donor and government funding	National Park/Conservation Area revenue
Type of financing mechanism	Environmental Management Special Fund (at District Level)	Government fund with direct payment to communities for local projects	Revenue-sharing at NP/CA level
Legal/policy basis	Local Development Act	PAF Act 2063	Buffer Zone Guidelines 2056
Distributing institution	Kulekhani Watershed Conservation and Development Forum (8 VDCs)	Community Based Organization (direct link between PAF and CO bank accounts)	Buffer Zone Council
Types of benefits (at community level)	Development projects, Watershed conservation activities (7%)	Community development projects and income generating activities	Conservation (30%), Community dev't (30%), Income generation (20%), & conservation education (10%) activities  Protection of traditional rights for some groups,  Access to forest products in PA at certain times
Recipient(s) of benefits and amount/percentage to each	Government of Nepal: Makawanpur DDC: 12% of royalties from Kulekhani Reservoir  VDCs in watershed area: 20% of (above) DDC	Local communities (80% of cost of projects; 18% comes from community, 2% from other partner organizations)	Buffer Zone Users Committee: 30-50% (cash)  Government of Nepal: Remainder

	funds		
<b>Outcomes</b>	??	Poverty Alleviation Involvement of disadvantaged in development work Sustainable societies	Resource conservation, Alternative energy programs, Human resource development

## 4. Parameters to be considered for REDD benefit sharing in Nepal

There still remains many uncertainties and questions to be addressed in REDD negotiations and policy-making at both national and international levels. There is a need to consider some parameters based on which, further discussion and negotiation can be carried out for REDD benefit sharing in Nepal. Different parameters which need a rigorous discussion are as follows:

**i) Multi-stakeholder decision making:** To ensure a transparent decision making, involvement of a multi-stakeholder body can be crucial. It can be learned from the experiences in Brazil, Indonesia and VietNam on benefit sharing of revenues or funds. An inclusive decision making, with involvement of third party auditing and civil society representatives for fund management as in the case of VietNam, can be a source of learning. Similarly, management of Amazon Fund through a multi-stakeholder decision making, or participation of multiple government ministries, civil society and non-governmental organizations in Indonesia can also be an important learning for Nepal.

There are various government and non-government bodies who have been involved in different REDD related activities in Nepal. REDD-cell within the MoFSC is one of the main government body who has been actively participating in REDD activities including RPP preparation. In addition to the government institutions, roles of NGOs, private organizations, academia, civil society and different community based organizations can be essential. Creation of a separate REDD fund, similar to Amazon Fund in Brazil, can be a good learning for Nepal. Even though, role of a developer is still unclear, Nepal can learn from Indonesian experiences, where developer gets a certain share of the revenue for facilitating the negotiation and implementation of carbon projects.

**ii) Beneficiaries of REDD payments in Nepal:** The matter of who can or should benefit from REDD in Nepal is also of critical importance. To date, most pilot programs and dialogues on REDD in Nepal have focused on the roles of community-based forest management, and community forestry outside of protected areas in particular, neglecting other potential contributors to forest carbon conservation and enhancement, such as leasehold forest user groups, buffer zone community forest user groups, collaborative forest user groups, religious forest users/managers, private landholders, government administrators (for protected areas and national forest areas under government management). A comprehensive, nationwide system for

REDD must include a majority of these users in order to be effective, and therefore be brought into discussions and piloting activities. Furthermore, there are institutions and actors who may not be the actual managers or users of forests, nonetheless, could play a crucial role in a REDD scheme, such as NGOs, federations and/or private developers. The type and amount of benefits for these actors must also be considered.

**iii) Levels of benefit sharing:** Levels of benefit sharing from REDD payments is still unclear both at national and international level. But, the distribution of benefits among different countries at the international level could be determined by a range of different national-level factors, such as the relative affordability and availability of carbon enhancements (i.e. cost-effectiveness); the rate or risk (i.e., threat) of deforestation and forest degradation; the amount of existing forest cover or carbon stocks; the potential or actual performance of carbon enhancement activities; the general status of forest governance; and the overall biodiversity and/or socioeconomic conditions of the country. In a project-based (e.g., voluntary market) scenario, payments will be made directly from an international carbon investor or intermediary to a project-level entity, based also on some of these factors. Establishment of three levels of REDD fund at the sub-national level in VietNam, has generated a rigorous discussion for choosing a viable option even though the decision on how many levels has not been decided yet. Depending on what tomorrow's scenario on nation restructuring will be like in Nepal, different levels of benefit sharing can still be estimated. Basic levels of REDD benefit sharing mechanism is further discussed in the report.

**iv) Basis of benefit distribution:** Until now, it has been estimated that carbon enhancement (performance) will be the main basis or criteria for REDD benefit distribution. However, there are other important ecological, economic and social considerations that could influence the allocation of carbon payments from international to the community and household levels. We can learn from Brazilian experience, where revenue distribution in different states was carried out. Most of the percentage has been channelled to the state with highest conservation of forest area.

Even though, possibility of performance based payment is high, there are however, number of other considerations that require further research and negotiations in the context of Nepal. Those considerations are forest governance status, carbon enhancement performance, rate or threat of deforestation and forest degradation, existing forest cover and carbon stocks, socio-economic/biodiversity status (co-benefits), bio-geographical region, forest management regime type and so on. These factors have the potential to influence the distribution of carbon payments and thus should be taken into consideration when evaluating different potential scenarios and devising a benefit-sharing scheme for REDD. In addition, there are country-specific political factors and processes that could have a bearing on which countries receive most support. For example, the current US bill on climate change and energy includes provisions for the long-term support of national REDD programs, but only limited, short-term support for project-based REDD funding.

Some of the national experiences on benefit sharing provide valuable insights on the basis of benefit distribution as well. For instance, benefit sharing practices within the buffer zones in PAs of Nepal, has a well established payment structure. The basis of the payment within the buffer zones are restriction on resource use and involvement of the locals in conservation activities.

The already existing practices can be the basis of REDD payments for PAs in Nepal. Also, perspectives can be drawn from channelling of revenue for conservation activities (as in the case of Kulekhani).

**v) Form of benefits:** Another important parameter is, what specific form, the benefits should take. There can be three main forms that benefits can take: monetary payments, in-kind development support, and technical assistance. Even though the form of REDD payments is still unknown, there can be various factors that the people argue on, regarding what the form of payment should be based on. For instance, socio-economic condition of the region, predetermined needs of the people and geographical location of the region are some of the factors that people argue on the form of benefits.

There could also be a possibility of a 'hybrid' form of payment mechanism. One possible argument for a hybrid approach is that, it can help ensure all community members' benefit, and that local elites do not receive a disproportionate share of the benefits. However, it is questionable whether government entities can do a better job of determining local priorities and needs, and ensuring the equitable distribution of benefits. Moreover, the experience of community forestry in Nepal has shown that effective systems and the capacity for ensuring benefits are shared in a fair and equitable way already exists among many communities. A simple learning from the Juma Reserve Project, where the local communities are paid in cash for their conservation efforts, illustrates one of the ways the form of payment can take.

**vi) Fund management:** Question on who will manage the fund is still debatable. However, different possible scenarios have been conceived at the international level for REDD benefit sharing: a national approach, a nested approach, and a project-based approach. Fund management by a different body like that of Amazon Fund in Brazil, could be a possible option for a country like Nepal. There have been issues and complaints on the funds managed by the government of Nepal, thus, a separate fund management body with a multi-stakeholder governing body, can be established to overcome the problem of fund mis-management.

One key question under a national scheme or nested approach is: who will manage the national fund? This is a critical governance issue, since it is imperative to ensure that the money received in the fund is managed and distributed in a transparent, accountable and just way. The buyers must be ensured that their investment is being spent in the most efficient and effective way, while the sellers (forest managers) must receive benefits proportionate to their carbon offsetting contribution, as well as the provision of other desired socioeconomic and biodiversity outcomes (i.e. co-benefits). Another key question related to fund management is: "Which institution(s) will serve the governance or oversight role of the funding mechanism?" This governance role is critical to ensuring the transparency, accountability and equity of fund transactions. Ideally, the governing institution(s) should be comprised of representatives from multiple stakeholder groups, including local communities, and have access to records of all transactions of the funds.

PAF could provide some insights for the management and distribution of REDD funds within Nepal. The mechanism of channelling funds via bank account and ultimately to the local communities could be a source of learning for developing pro-poor REDD benefit distribution mechanisms.

**vii) Channel of Payment:** Decision is yet to be made on the channel of REDD payments. There could be a fiscal transfer of fund, through various governmental levels, or a separate mechanism for channelling the funds. The structure of the NRWG in Indonesia implies that, it would have a government channelling of funds, even though the level of its performance is yet to be evaluated. Some perceive that fund channelled through government might create additional bureaucratic hurdles, and that if the payments have to trickle down through different tiers of government, the benefits reaching the forest managers will be minimal, thus undermining the scope of REDD.

Since, clarity on the above mentioned parameters is yet to be made, further research and rigorous discussions are required for REDD benefit sharing mechanism in Nepal.

## **5. Institutional Options**

Question on what types of institutions should be involved in implementing a REDD benefit-sharing mechanism in order to ensure that all relevant stakeholders can benefit is still dubious. Also different institutional roles such as benefit sharing, carbon accounting and governance, at each level have been a disputable issue. This section focuses on the basic levels of benefit sharing with key considerations at each institutional level. It also presents some of the basic scenarios for REDD benefit sharing in Nepal. Finally, benefit sharing practices that exists within CFUGs of Nepal has been illustrated.

### ***5.1 Levels of benefit sharing***

There are four basic levels of benefit-sharing relevant to REDD: international to national; national to sub-national/project, sub national/project to community, and community to household/landholder. This report is primarily concerned with sharing of benefits from the national level down.

The distribution of benefits among different countries at the international level could be determined by a range of different national-level factors, such as the relative affordability and availability of carbon enhancements (i.e. cost-effectiveness); the rate or risk (i.e., threat) of deforestation and forest degradation; the amount of existing forest cover or carbon stocks; the potential or actual performance of carbon enhancement activities; the general status of forest governance; and the overall biodiversity and/or socioeconomic conditions of the country. In a project-based (e.g., voluntary market) scenario, payments will be made directly from an international carbon investor or intermediary to a project-level entity, that too will be based on some of the above factors.

The disbursement of payments from the national to the sub-national or project level would also depend on the rate or risk of deforestation and forest degradation and the potential or performance of carbon enhancements in different areas; as well as the type of forest management regime (e.g. community forest, leasehold forest, protected area, national forest) and bio-geographical differences among regions. Payments could either be made directly from a



national account to a project level entity and/or via some sub-national (e.g., regional, state, district) bodies (e.g., intergovernmental transfer). The distribution of benefits from the sub-national or project level to the community level would most likely be determined by such factors as the performance/potential of carbon enhancement, a community's contribution to carbon measurement and monitoring responsibilities and costs, and/or the type of forest management regime. At the community level, sharing of benefits among different households and landowners could be a function of their socioeconomic status or need, as well as their relative contribution to forest management, conservation and monitoring efforts. At the project or community level, funds could also be channelled into joint development projects that benefit all communities and/or community members.

Table 5.1 summarizes the basic levels of a REDD benefit-sharing mechanism, along with the key design considerations and the possible basis for compensation at each level.

**Table 5.1: Basic levels of benefit sharing with key considerations and possible basis at each level**

Level	Key considerations	Possible basis for benefit distribution
International ↓ National (or Project)	<ul style="list-style-type: none"> <li>National fund <i>or</i> international → project financing? [<i>legal obligation (i.e. regulatory) or voluntary</i>]</li> <li>Percentage of funds to national government and/or oversight body (and/or to international carbon investors, <i>if project-based</i>)</li> </ul>	<ul style="list-style-type: none"> <li>Threat or rate of deforestation and forest degradation</li> <li>Existing forest cover/carbon stocks</li> <li>Carbon enhancement potential or performance (and cost-effectiveness)</li> <li>Forest governance status</li> <li>Biodiversity/social status (co-benefits)</li> </ul>
National ↓ Sub-national or Project	<ul style="list-style-type: none"> <li>Based on forest regime (CF, LHF, CollF, NF, PA, private...) and/or administrative unit (development region, state, district, VDC...)?</li> <li>Percentage of funds for sub-national and/or project level coordinating organization(s)</li> <li>Geographical basis for project area definition?</li> </ul>	<ul style="list-style-type: none"> <li>Threat or rate of deforestation and forest degradation</li> <li>Existing forest cover/carbon stocks</li> <li>Carbon enhancement potential or performance</li> <li>Forest regime type</li> <li>Bio-geographical region</li> </ul>
Sub-national or Project ↓ Community	<ul style="list-style-type: none"> <li>Based on forest regime, geographical area or administrative unit?</li> <li>Financial compensation and/or development benefits</li> </ul>	<ul style="list-style-type: none"> <li>Carbon enhancement potential/performance</li> <li>Involvement in carbon measurement and monitoring (costs)</li> <li>Forest regime type</li> </ul>

Community ↓ Users/Households	<ul style="list-style-type: none"> <li>• One community-level entity or multiple (e.g., according to forest regime/user type)?</li> <li>• Financial compensation and/or development benefits?</li> <li>• Guidelines or categorization of Households to benefit from REDD+ (e.g., well being ranking)</li> </ul>	<ul style="list-style-type: none"> <li>• Socio-economic(or cultural) status/need (e.g. IPs, Dalits, gender, poor)</li> <li>• Forest management contribution</li> <li>• Forest management regime type</li> </ul>
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## 5.2 *Alternative scenarios and considerations for REDD benefit sharing*

There are three basic scenarios or options for a REDD benefit-sharing mechanism (see Figure 5.1 below): a national mechanism (scenario A), a nested approach (scenario B), and a purely project-based (or voluntary market) approach (scenario C). In a national mechanism, the funds would come from international buyers and/or donors into a National Carbon Fund, and subsequently be distributed down to different sub-national and local administrative levels. In a nested approach, international payments would also come into a national fund, but would then be paid directly to a project-level entity in a defined geographical area (e.g., defined according to watershed). Under the project-based scenario, international buyers would invest directly in a project via an international carbon investment firm or “developer”. Each of these options should be assessed according to their effectiveness, (cost) efficiency, and contribution to equity and co-benefits. Furthermore, the option that is selected should help ensure that the forest managers—those responsible for the carbon stock enhancements—receive a fair share of the benefits.

Each of these three basic scenarios has their advantages and disadvantages. A national mechanism (scenario A) would mean that carbon payments are tightly regulated and controlled at the central level. While the government might find this advantageous, it could be less than optimal from an efficiency and/or governance perspective, as it would likely involve more bureaucratic procedures and greater potential for inefficiency and corruption in the system. This could mean less direct incentive for local forest managers to conserve their forests and/or exclusion of certain forest management regimes. A purely project-based approach (scenario C) would be more flexible, allowing investment in specific projects (and forest management regimes) that international investors find promising from a carbon, socioeconomic (i.e., livelihood enhancement) and/or biodiversity conservation perspective. This would also provide a more direct incentive and link to different groups of forest managers. However, the government might find it difficult to regulate such funds, or channel them into capacity-building activities (although a separate funding channel could be established for this purpose). As a result, some geographic areas would probably be left out and carbon leakage could be a concern. Moreover, the buyers of carbon credits might express concerns about “leakage”, or the resulting deforestation or forest degradation in areas outside of the targeted REDD sites. In addition,

under a project-based scenario, guidelines would have to be developed to ensure that the interests of local communities are sufficiently represented and upheld.

A nested approach (scenario B) combines the national and project-based approaches. It would allow the government to control the funds and determine where and how they should be spent, while avoiding administrative hurdles and inefficiencies between the national and project levels. It could also allow for a greater diversity of different types of sub-national projects, while encouraging more effective local-level institutions. However, under both the nested and national approaches, some communities could be excluded from benefits if they do not meet the government's priorities for investment, which would be driven primarily by carbon enhancements, to the possible detriment or exclusion of important livelihood and biodiversity co-benefits. Another danger of the national or nested approach is that they might provide an incentive for the government to lock up land in protected areas, challenging the rights of private landowners and, particularly, those of various community-based forest management groups. This is a real risk for Nepal, where community tenure is ambiguous and continually challenged, and indigenous communities often don't have clear claims to their traditional territory. The government's recent declaration of protected areas, made without consulting local communities, provides evidence of this risk.

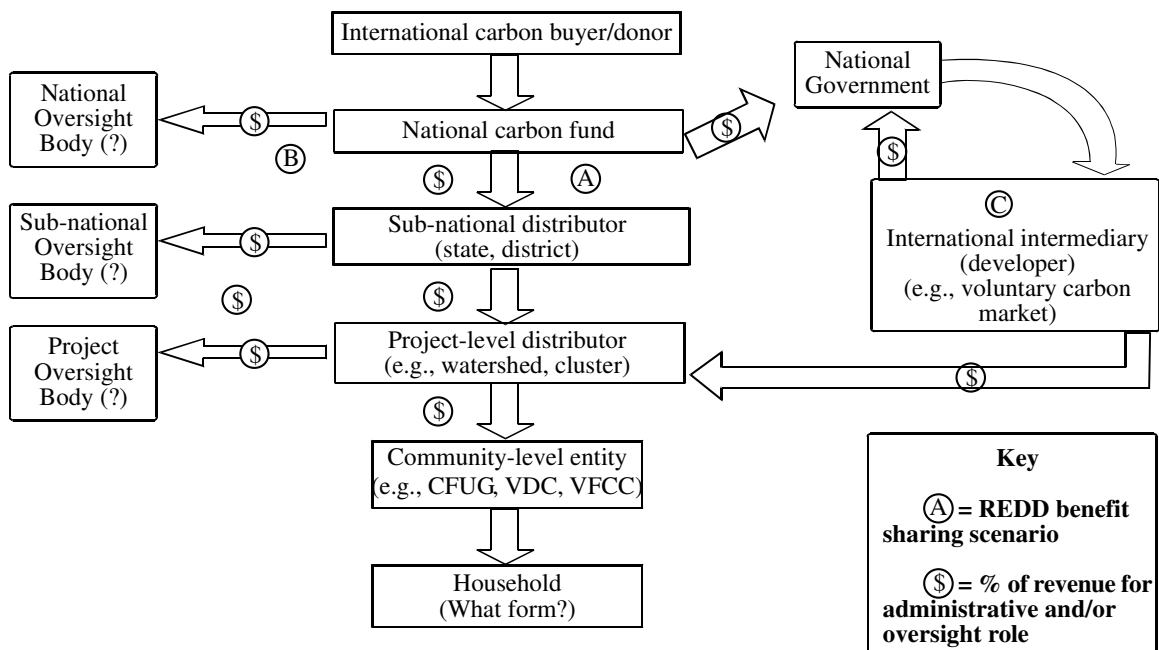


Figure 5.1: Basic scenarios for a REDD benefit-sharing mechanism

So far, there is a possibility of establishing a ‘national carbon fund’, at the national level which would be responsible for managing the carbon fund received from the international donors. But, who would be representing the body still leaves room for a debate. Some argue that, representations of national carbon fund should be a multi-stakeholder body, similar to that of Brazil’s Amazon Fund. Others claim that there should be a strong government representation in the body which would create a conducive environment for future negotiations with the international donors. Apart from this, presence of civil society, CBOs, political party representatives and NGOs, both in carbon measurement and benefit sharing can result in a transparent decision making. As the payment trickles from the national level to the community or even upto the household level, roles of different institutions have to be clarified. Depending on what tomorrow’s political scenario of Nepal would be like, it is imperative to figure out the roles and responsibilities of different governmental organizations, NGOs, the civil society or CBOs, for each parameter that has already been discussed in section 4. Also, different alternative scenarios that have been presented above in section 5.2 need to be further analyzed in reference to different parameters discussed above. REDD-cell and district forest office (DFO) are some of the governmental organization who have a potential role in REDD benefit sharing and monitoring. Similarly, NGOs like FECOFUN (including district FECOFUN), REDD-network, women group and other welfare organizations can have significant role both as a decision making and a monitoring body. Political party representatives from major parties and local communities can have a major function in monitoring and ensuring good governance in benefit sharing.

### ***5.3 Benefit sharing within CFUGs/forest management groups***

Forests provide benefits to the local communities in many ways. In the context of community forests, the local communities are dependent on forest resources for their livelihood. Forest resources have also been a financial source to the community in which income generating activities, such as selling timber, fodder, fuel wood, and herbs are practiced well. Community forest has contributed to poverty reduction by providing different forms of benefits.

Community forests have their own benefit-sharing practices for distributing the forest products they collect and dividing the revenues earned through selling these products, both within and outside of their community. Rural communities are dependent on forest resources for timber, fuel wood and other important products to support their livelihood needs. Apart from the benefits acquired from forest like timber, fuel wood, herbs etc., communities have started to realize qualitative benefits from their forests as well. Environmental services like water recharge, biodiversity conservation and air quality are gaining importance within the communities lately. Benefit sharing within the community forests of Nepal has been equitable in some areas, where the CFUG’s are involved in collection and selling of their forest products. The income generated is often used for local development projects, capacity building and income generating programs, and as loans or grants to poor and disadvantaged groups within the community. But, there are

even cases where elite groups dominate the decision-making process, resulting in a disparity in benefits among the CFUG's.

Discussion on the current benefit sharing practices within the CFUG's was conducted in three pilot regions. A group of 10-12 people were interviewed in each community forests and discussion was conducted based on the benefit sharing practices within the CFUG's. In most of the CFUG's, forest resources like timber, fuel wood, herbs and fodder are being shared and sold within their groups. The surplus products are then sold to the outside communities and wood industries. The income generated is shared within the community in the form of development activities like road and school construction, income generating activities, loans and grants to the poor groups and so on. Benefit sharing practices within the CFUG's visited in the three districts are summarized in annex 4.

## **6. Discussion and way forward**

Sharing of benefits will play a vital role in promoting the involvement of the forest recipients (forest managers) in conservation activities. Since there are different types of forest regimes in Nepal like community forests, leasehold forests, private forests, religious forests, collaborative forests and protected areas, there is a need to develop macro-level policies and negotiations on how the benefit sharing should be carried out. As mentioned earlier, REDD payments will be based on performance (carbon storage), and since conservation efforts vary at different regimes, there is a need to harmonize the level of forest management activities throughout the country. Also, there is a need to develop policies regarding the fund distribution even within the forest management groups, for instance, the mechanism of fund distribution within the community forest user groups will be different from that of a leasehold forest. Thus, establishment of a mechanism for REDD benefit distribution among and within different forest management regimes at different institutional levels has been necessary.

Another issue related to REDD in Nepal is devolution of the benefits that can be reaped from REDD. The pre-condition for this is to strengthen the relationship between the state and the forest-dependent communities of Nepal. To ensure this relation, duties and rights of the local government (VDC's) should be clearly stated. The only way to bring the state and local community in close proximity to each other is by devolution of some of the state powers to the local governments. In addition to this, the rights and responsibilities of all the stakeholders (state, district, VDC's and the community) should be clearly stipulated. A horizontal structure of decision making (multi-stakeholder mechanisms) would be more appropriate for Nepal where there has always been a gap between the state and local communities. Strengthening of local institutional mechanism is another pre-condition to ensure equitable benefit sharing from REDD in Nepal. This could be possible by reinforcing local planning and awareness programs throughout the state.

There could be a need for intermediaries to negotiate with the international community and facilitate REDD related programs in the country. A similar practice can be seen in Indonesia, where developers get a certain share of the net revenue from carbon projects for facilitating the programs. In some cases, private carbon companies can play the role of a developer. But, in the case of Nepal, there is still a need to define the roles and responsibilities of a developer. Also, the shares of the revenue from carbon payments that goes to the developer should be clearly stated in REDD policies.

Conceptually, REDD is purely a performance based mechanism, but whether such a mechanism will solve the problem and needs of the poor and forest management groups is still a question. Carbon storage in the forests may not be the sole indicator of performance. Since, the geographical make up of Nepal is diverse, forest quality differs in different regions (terai, hilly, mountains), which will determine the forest quality (cover and density). In the current scenario of forest management in Nepal, forests in the hilly and mountain regions are prospering in terms of increment in the forest cover compared to the Terai, where deforestation is rampant. Technically, forest cover and density remains high in the Terai region despite the increasing deforestation rates, which will result in more payments in terms of carbon storage in the forests. In terms of equity, performance-based payments may not be fair for some of the forest management groups in some geographical areas. Thus, it is imperative to address the issue of the basis of payment both at international and national level negotiations.

Another important issue to be addressed is acknowledging the local rights over the forest resources. In the case of the Adat community forests in Indonesia, the government did not acknowledge the local rights to the forest resources, thus evoking conflicts among various stakeholders. Thus, looking at the international experience, and even at our own community forest management practices, it is crucial to hold multi-stakeholder discussions at all levels.

Addressing ground realities of the country is very important to ensure equitable benefit distribution. Issues like cost effectiveness of carbon payment in the context of Nepal needs further clarification. REDD payments should compensate the needs of the local communities, in order to ensure profitable REDD. There have been concerns from some groups regarding the role of the government in benefit sharing. Some argue that, the government should act as a regulator of REDD activities—because it would be the government that will be negotiating with the international communities on REDD compliance issues—provided that there will be a strong commitment from the government side to work in an equitable manner.

It has been learned from experiences that multi-stakeholder involvement in the decision-making process is more effective than unilateral decision making. A multi-stakeholder forum including the government, civil society representatives, private entities, indigenous groups and other community-based organizations need to be formed. This forum should be responsible for developing all REDD-related policies and strategies in Nepal. There are still a couple of issues that need rigorous study and explanation before REDD can be implemented. Most of the

parameters have already been discussed earlier in the report and the ones that need further multi-stakeholder discussion are presented below:

- Form of payment: cash Vs kind and any if any conditionality needed?

The uncertainty on the form of payment still remains, even at the international level of REDD negotiations. Even if the payment would be in the form of cash, there is a need to develop a mechanism to share the fund or benefits among and within different forest management regimes. The form of payment should fulfill the needs of the poor communities. Biogas and other programs under clean development mechanism can be a basis for REDD payments at the grass root level.

- Channel of payment: government or separate mechanism

There can different options on how the payments can be conducted once a country receives REDD fund. The payments can be done either through intergovernmental transfer or a different mechanism involving multi-stakeholder bodies.

- Fund management agency: government structure or Bank or other?

Question on who will manage the REDD fund remains dubious. Some argue that GoN should be solely responsible for the management of the REDD funds while others defend on the presence of other institutions like bank for the fund management. Both International (e.g. Amazon Fund) and national (e.g. PAF) experiences can be a source of learning for the establishment of a separate institution for REDD fund management.

- Need to address the issues of tenure

The major issue related to REDD implementation is tenure rights. It is one of the pre-conditions for REDD because without addressing the issue of tenure, REDD will bring in conflict along with the payments. The state needs to ensure the rights of the local people who hold the property or deserve the rights on the property. In other words, forest managers, including Indigenous Peoples and local communities should have the rights over the forest resources and related benefits. It is the right time to consider forest tenure rights in Nepal, since the country is in the process of drafting a new constitution. Thus, to enhance governance and equitable benefit distribution, the country should have stringent legal provisions included in the new constitution. Such provisions for forests and other natural resources under common property will create a bridge for the people to raise their concerns and fight for their rights with the state.

- Ensure “what and where” participation of different groups (Dalits, women, IP’s, locals etc)?

There have been strong voices on the inclusion of IP's, dalits, women and local communities in decision making processes. Even though the participation is most talked about and acknowledged by the government, the question of “what and where” participation is still precarious.

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## Annex

### Annex 1: List of participant of community level focus group discussion

#### Gorkha:

<b>Mahalaxmi CFUG (19<sup>th</sup> April, 2010)</b>	<b>Kuwadi CFUG (18<sup>th</sup> April, 2010)</b>
<ol style="list-style-type: none"><li>1. Manahari Pariyar (chairman)</li><li>2. Parshuram B.K (vice-chairman)</li><li>3. Tej b. Ale (Treasurer)</li><li>4. Hira Thapa (secretary)</li><li>5. Surya B. Duwadi (member)</li><li>6. Pushpa Ale ((member)</li><li>7. Kajiram Ale (member)</li><li>8. Bishnu B. Thapa (member)</li><li>9. Hom B. Ale (member)</li><li>10. Ana B. Duwadi (member)</li><li>11. Shambhu Narayan B.K (member)</li><li>12. Bishnu Lamichhane (member)</li><li>13. Prem B. Thapa (member)</li><li>14. Khadak B. Ale (member)</li><li>15. Kajiram Ale (member)</li></ol>	<ol style="list-style-type: none"><li>1. Goma Shrestha (member)</li><li>2. Kamala Thapa (member)</li><li>3. Rom B. Thapa (member)</li><li>4. Manakaji Bagale (member)</li><li>5. Basudev Ghimire (REDD-network member)</li><li>6. Janaki Nepali (member)</li></ol>

#### Chitwan:

<b>Jamuna CFUG (22<sup>nd</sup> April, 2010)</b>	<b>Pragati CFUG (22<sup>nd</sup> April, 2010)</b>
<ol style="list-style-type: none"> <li>1. Buda Ram Chepang</li> <li>2. Mira Chepang</li> <li>3. Gori Maya Chepang</li> <li>4. Tula Ram Chepang</li> <li>5. Gopi Ram Chepang</li> <li>6. Sumitra Chepang</li> <li>7. Kalu Ram Chepang</li> <li>8. Bar Hate Chepang</li> <li>9. Siri Maya Chepang</li> <li>10. Santa Maya Chepang</li> </ol>	<ol style="list-style-type: none"> <li>1. Ram Chandra Shrestha (Chairman)</li> <li>2. Laxmi Karki (Secretary)</li> <li>3. Shobha Khatri</li> <li>4. Pawitra Shrestha</li> <li>5. Kinar Bharati</li> <li>6. Bal B. Tamang</li> <li>7. Deepak Shrestha</li> <li>8. Dil B. Praja</li> <li>9. Bhoj B. Shrestha</li> <li>10. Sumitra B.K</li> <li>11. Samjhana Praja</li> <li>12. Ram B. Magar</li> </ol>

#### **Dolakha**

<b>Simpani CFUG</b>	<b>Bhitteri CFUG</b>	<b>Thangsa Deurali CFUG</b>	<b>Barkhe Danda Pari CFUG</b>
<ol style="list-style-type: none"> <li>1. Hari Saran Neupane (Chairman)</li> <li>2. Santa B.K (Vice-chairman)</li> <li>3. Hari Prasad Neupane (Secretary)</li> <li>4. Ram Prasad Neupane</li> <li>5. Harihar Prasad Neupane</li> <li>6. Santosh Neupane</li> <li>7. Radhika Bhujel Neupane</li> <li>8. Malika Neupane</li> <li>9. Dinesh Neupane</li> </ol>	<ol style="list-style-type: none"> <li>1. Tara Basnet (Chairman)</li> <li>2. Gorak B. Basnet (Secretary)</li> <li>3. Gyan Tamang (member)</li> <li>4. Hasta B. Bhujel (member)</li> <li>5. Dhana B. Tamang (member)</li> <li>6. Tara Basnet (member)</li> <li>7. Gita Basnet (member)</li> <li>8. Kanchi Tamang (member)</li> </ol>	<ol style="list-style-type: none"> <li>1. Krishna B. Karki (Chairman)</li> <li>2. Basu Karki (Secretary)</li> <li>3. Ram B. Bhujel (Treasury)</li> <li>4. Thuli Bhujel (member)</li> <li>5. Rupa Bhujel (member)</li> <li>6. Kamala B.K (member)</li> </ol>	<ol style="list-style-type: none"> <li>1. Basu Basnet</li> <li>2. Kamala Basnet</li> <li>3. Rita Thapa</li> </ol>

**Annex 2: List of participants at district level discussion in Gorkha, Chitwan and Chitwan district**

**Chitwan:**

**Venue: District Forest Office, Chitwan**

**Date: 21 April, 2010**

<b>No.</b>	<b>Name</b>	<b>Organization</b>	<b>Post</b>
1	Ramesh Kumar Poudel	Nagarik Daily	Reporter
2	Rajendra Suvedi	DDC, Chitwan	Office Chairman
3	Deepak Dahal	Nagarik Daily	Reporter
4	Shambhu Charmakar	ANSAB	Forest Officer
5	Sudeep Neure	Kalika FM	News Reader
6	Jagat Adhikari	CFUG	Member
7	Dharmaraj Timilsina	District Land Protection Office	Chairman
8	Surya Prakash Kandel	Annapurna Post Daily	Reporter
9	Dal Bahadur Chepang	CFUG	Secretary
10	Bipana Chepang	REDD-Network	Member
11	Chulthi Maya Chepang	REDD-Network	Member
12	Kashiraj Praja	CFUG	Chairman
13	Surya Man Chepang	Siddhi CFUG	Vice-chairman
14	Bindu Poudel	GSS Federation	Member
15	Shova Khatri	Shaktikhor REDD-Network	Member
16	Laxmi Karki	Shaktikhor CFUG	Member
17	Rashmi Rana Magar	FECOFUN	Facilitator
18	Chami Rana Magar	Devi Dhunga CFUG	Member
19	Shanta Adhikari	Nepal Reporters Federation	Secretary
20	Mahendra Bahadur Praja	Praja cooperative	Chairman
21	Bharat Dhungana	Shaktikhor CFUG	Chairman
22	Man Bahadur Khadka	Kayar Watershed REDD-Network	Facilitator
23	Padam Gurung	IP Federation	Chairman
24	Dil Bahadur Khatri	Forest Action	PES Specialist
25	Bishnu Prasad Poudel	DDC, Chitwan	

26	Govinda Prasad Kandel	FECOFUN, Chitwan	Chairman
27	Fadindra Prasad	District Forest Office, Chitwan	Forest Officer
28	Damodar Neupane		
29	Krishna Prasad Bagale	CFUG	Treasurer
30	Ram Mani Neupane		
31	Bed Bahadur Adhikari	REDD-Network	Secretary
32	Deepak Rijal	Kamana News Publication	Reporter
33	Chitra Bahadur Magar	Devi Dhunga CFUG	Chairman
34	Bhimarjan Neupane	FECOFUN, Chitwan	Secretary
35	Harka Bahadur Thapa Magar	FECOFUN	
36	Sarita Kadka		
37	Narayan Dhungana	Kalika News	Reporter
38	Radheshyam Khatiwada	Radio Chitwan	Media Person
39	Chandani Hamal	Nagarik/Ujyalo	Reporter
40	Shishir Sinkhada	Radio Nepal	Reporter
41	Bishnu Kumari Sharma	FECOFUN	Member
42	Arjun Pageni	Shaktikhor VDC	Secretary
43	Rahul Karki	Forest Action	Intern
44	Bryan Bushley	Forest Action	Researcher
45	Mahendra Dura	NEFIN, DCC Chairman	President
46	Uddhav Prasad Timilsina	DDC, Chitwan	Officer
47	Indira Rijal	CF Unity Centre	Vice-Chairman
48	Gunaraj Thapalia		
49	Nawaraj Dahal	FECOFUN	Officer
50	Ram Chandra Gautam		Facilitator
51	Manju Kandel	Unique Channel	Reporter
52	Amrit Gurung	Unique Channel	Reporter
53	Bal B. Parajuli	District Forest Office	Ranger
54	Uttam Praja	FECOFUN, Chitwan	Facilitator

55	Dipendra Adhikari	Chitwan Post	Reporter
56	Chitra Bahadur Limbhu	IP Federation	Member

**Dolakha:**

**Venue: DDC office, Dolakha**

**Date: 28 April, 2010**

<b>No.</b>	<b>Name</b>	<b>Organization</b>
1	Keshav Chaulagain	Political Party (NC)
2	Shankar Lama	Political Party (Maoist)
3	Bharat Dulal	Political Party (UML)
4	Nara B Pakhrin	Political Party (RPP)
5	Narayan Sedai	DDC-Dolakha
6	Kedar Dahal	DDC-Dolakha
7	Ram Krishna K.C	DDC-Dolakha
8	Ishwor Upadhyaya	NSCFP
9	Rameshwor Manandhar	Chamber of commerce
10	Nawaraj Neupane	Irrigation
11	Durga B Dura	Red Cross
12	Hom Pathak	HERDEC
13	Mukunda Dahal	Tuki Sang
14	Sahrada Ghimire	HIMAWANTI
15	Laxaman Siwakoti	HAMRO FM
16	Binita Siwakoti	Shailung FM
17	Deepak Basnet	Kalinchowk FM
18	Ram B Ghimire	District Irrigation Office

19	Dhana B Tamang	REDD network-Dolakha
20	Rang Dhvaj Budhathoki	
21	Laxmi Bhujel	
22	Laxmi Karki	
23	Uddhav Pokhrel	FECOFUN-Dolakha
24	Harihar Neupane	FECOFUN-Dolakha
25	Sita K.C	FECOFUN-Dolakha
26	Kamala Basnet	FECOFUN-Dolakha
27	Jagannath Basnet	FECOFUN-Dolakha
28	Devi Bhujel	FECOFUN-Dolakha
29	Gayatri Acharya	FECOFUN-Dolakha
30	Gyanendra Pradhan	CF worker
31	Santosh Neupane	REDD-network
32	Krishna Karki	CFUG
33	Laxmi Karki	CFUG
34	Chattralal Regmi	CFUG
35	Dil Bahadur Khatri	Forest Action Nepal
36	Rahul Karki	Forest Action Nepal
37	Bryan Bushley	Forest Action Nepal
38	Nawaraj Dahal	FECOFUN
39	Dil Raj Khanal	FECOFUN

### Annex 3: List of expert consulted and their perspectives

No.	Name	Organization	Context of Discussion
1	Dr. Bharat Pokhrel	NSCFP	REDD benefit sharing
2	Mr. Resham Dangi	MoFSC	REDD benefit sharing
3	Mr. Keshav Khanal	REDD-Cell	REDD benefit sharing
4	Mr. Bishnu Thapalia	DNPWC	Buffer Zone benefit sharing
5	Mrs. Kamala Sharma	HIMAWANTI	Role of women in benefit sharing

### Annex 4: Benefit sharing practices within different CFUG's in three districts of Nepal

Community Forest	District	Forest Products Shared	Other Benefit Sharing schemes	Remarks
<b>Kuwadi CF</b>	Gorkha	<ul style="list-style-type: none"> <li>▪ Dry wood</li> <li>▪ Grass</li> <li>▪ Fuel wood</li> </ul>	<ul style="list-style-type: none"> <li>▪ Loans for rearing goats (@ 10% interest/year)</li> <li>▪ Investment in drinking water</li> <li>▪ Forest enhancement activities</li> </ul>	The loans especially focused for marginalized groups
<b>??</b>	Gorkha	<ul style="list-style-type: none"> <li>▪ Dead and dry wood</li> </ul>	<ul style="list-style-type: none"> <li>▪ 25% forest enhancement</li> <li>▪ 35% marginalized group</li> <li>▪ Rest development work</li> <li>▪ Financial assistance to downstream users for dairy management</li> </ul>	Income generated from selling dead and dry wood
<b>Jamuna CF</b>	Chitwan	<ul style="list-style-type: none"> <li>▪ Fuel/timber wood</li> <li>▪ Grass</li> <li>▪ Herbs</li> <li>▪ Water</li> </ul>	<ul style="list-style-type: none"> <li>▪ Rs 50/cubic feet (wood) within community</li> <li>▪ Rs 250-300 outside the community</li> </ul>	Poor within the community can collect selective products to sell it to market for livelihood
<b>Pragati CF</b>	Chitwan	<ul style="list-style-type: none"> <li>▪ Fuel wood</li> <li>▪ Herbs</li> <li>▪ Water source</li> </ul>	<ul style="list-style-type: none"> <li>▪ 50% grant-50% loan to poor with zero interests</li> <li>▪ Investment on biogas, buffalo farming, student scholarships</li> </ul>	Income generated by selling timber within, outside community Issue of Tenders for selling timber in Chitwan district



<b>Dhande Singha Devi CF</b>	Dolakha	<ul style="list-style-type: none"> <li>▪ Timber</li> <li>▪ Herbs</li> <li>▪ Machino</li> <li>▪ Lokta/Argheli</li> </ul>	<ul style="list-style-type: none"> <li>▪ 25% forest management</li> <li>▪ 35% poor group</li> <li>▪ 40% development</li> </ul>	Community hold 10% of the share at Lokta/Argheli enterprise
<b>Simpani CF</b>	Dolakha	<ul style="list-style-type: none"> <li>▪ Fuel wood</li> <li>▪ Timber (uttis/sallo)</li> <li>▪ Grass/dry leaves</li> </ul>	<ul style="list-style-type: none"> <li>▪ 25-30% for poor</li> <li>▪ 20% forest management</li> <li>▪ Rest social development work</li> </ul>	Forest management fund exist (fund received from govt as well) Interest is utilized for community
<b>Charnawati CF</b>	Dolakha	<ul style="list-style-type: none"> <li>▪ Grass</li> <li>▪ Herbs</li> <li>▪ Lokta/Argheli</li> </ul>	<ul style="list-style-type: none"> <li>▪ Forest management</li> <li>▪ School/road construction</li> <li>▪ Loan with no interest</li> </ul>	People involved in lokta/timber collection (income generation)
<b>Thangsa CF</b>	Dolakha	<ul style="list-style-type: none"> <li>▪ Timber/fuel</li> <li>▪ Grass</li> <li>▪ Herbs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Free product distribution during wedding, disaster victims and poor groups</li> <li>▪ Poor families/groups hold share on timber/lokta enterprise</li> </ul>	Fund mobilized from tol bikash samuha in the form of loan without interest