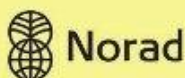


REDD+ Financing

What can we learn from the piloting of
Forest Carbon Trust Fund in Nepal?



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International Centre for Integrated Mountain Development (ICIMOD)

ABBREVIATION

ANSAB	: Asia Network for Sustainable Agriculture and Bio-resources
CF	: Community Forestry
CFM	: Collaborative Forest Management
CFUG	: Community Forest User Group
CSO	: Civil Society Organization
DDC	: District Development Committee
DDF	: District Development Fund
DFCC	: District Forest Coordination Committee
DFO	: District Forest Office/Officer
ERI	: Environmental Resources Institute
FCTF	: Forest Carbon Trust Fund
FECOFUN	: Federation of Community Forestry Users, Nepal
FSCC	: Forest Sector Coordination Committee
ICIMOD	: International Centre for Integrated Mountain Development
IP	: Indigenous People
LHF	: Leasehold Forestry
MoFSC	: Ministry of Forests and Soil Conservation
MRV	: Monitoring, Reporting and Verification
NEFIN	: Nepalese Federation of Indigenous Nationalities
NORAD	: Norwegian Agency for Development Cooperation
NPR	: Nepalese Rupees
PES	: Payment for Ecosystem Services
REDD Cell	: REDD Forestry and Climate Change Cell
REDD+	: Reducing Emission from Deforestation and Forest Degradation
RPP	: Readiness Preparation Proposal
USD	: United States Dollar

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EXECUTIVE SUMMARY

The development of an effective and equitable payment mechanism is one of the most important but challenging aspects of the REDD+ (Reducing Emissions from Deforestation and Forest Degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries) readiness process. This is particularly true in Nepal, where local communities have been managing small patches of forests under different tenure regimes. While different tenure regimes would call for correspondingly different benefit sharing arrangements, this discussion paper documents the experiences in regard to a pilot project on REDD+ benefit sharing in community forestry that was implemented by ICIMOD (International Center for Integrated Mountain Development) and its partners over the past three years. The project established a pilot Forest Carbon Trust Fund (FCTF), developed a mechanism for fund distribution, and provided the first installment of REDD+ payments to community forest user groups (CFUGs) in the three watersheds of Nepal, namely Charnawati in Dolakha, Kayarkhola in Chitwan and Ludikhola in Gorkha districts (Skutsch *et al.* 2012). CFUGs in these sites have started to use the fund in various activities as prescribed in the operational guidelines of FCTF (ICIMOD *et al.* 2011).

This Discussion Paper reviews the structure and governance of the pilot FCTF and explores the evolving dynamics in the project sites after the first payment. This study combines different methods: review of relevant literature and project-related documents, field observations, interviews with key stakeholders, and a series of consultations with experts. The preliminary findings were shared at different national level forums and the comments subsequently incorporated into this discussion paper.

Our review of the structure and governance of this REDD+ payment and benefit-sharing scheme showed that the pilot FCTF structure and the payment mechanism can provide important lessons for the development of future national REDD+ payment mechanisms. However, to increase the relevance and acceptability of the mechanism that is being promoted, the project should focus on two issues. First, the pilot FCTF structure should be expanded to strengthen the representation of the government and the private sector. Second, while the current mechanism appears effective and efficient, there is a need to achieve greater government ownership, and this can be made possible by engaging key multi-stakeholder bodies (especially, the REDD Working Group and District Forest Coordination Committee). However, these multi-stakeholder bodies are also questioned by civil society organizations (CSOs), particularly FECOFUN, on issues of representativeness and inclusiveness. Experts from government and development organizations strongly emphasized the need to devise a government-led structure for REDD+ financing by establishing strong monitoring mechanism and an adequate space for CSOs and the private sector to play their roles in the process.

The pilot FCTF structure has also facilitated a watershed level REDD-Network for bridging the payment from national level to the CFUGs. We found that the watershed level REDD-Network has helped reduce transaction costs for REDD+ implementation. However, there is a need to further clarify the roles of district level stakeholders, particularly between FECOFUN and the new REDD-Network to avoid role confusion and subtle uneasiness. Similarly, there are challenges in garnering the required support from district level stakeholders for watershed-level activities. There are additional challenges to further understand how the lessons can be adjusted in developing REDD financing mechanisms and institutions that would work in all forest management regimes that exist in Nepal.

We also found that the implementation of the payment criteria and FCTF fund-use guidelines confronted some challenges at the field level. While CFUGs received REDD+ funds in reference to a range of criteria, they did not have their own norms to distribute the funds to targeted groups, who were supposed to benefit from the funds. Given high weightage to the socio-economic criterion against the carbon sequestration, it has gained attention of the stakeholders and experts. Similarly, the CFUGs appear unenthusiastic in complying with the fund utilization guidelines, risking a high degree of non-compliance in future payments. The experts also questioned the rationale for two separate guidelines, and suggested that the activities outlined in the FCTF operational guidelines be harmonized with the community forestry guidelines (2009) in order to avoid confusion and non-compliance in the CFUGs.

Overall, the pilot FCTF structure and the payment mechanism developed by the project provided valuable lessons for crafting future FCTF governance under REDD+. It has established the foundation for the prospective REDD+ financing mechanism at different levels. Its uptake can be enhanced by making the FCTF more inclusive and by providing a more active role for the REDD Cell. Whilst bringing socio-economic criteria into REDD+ benefit sharing is an important concept, further deliberation is required to address stakeholders' concerns and to ensure its adoption by CFUGs.

Based on the review of FCTF governance and post-payment dynamics, we provide our recommendations for devising future national REDD+ financing mechanism. The recommendations are mainly concerned with revisiting the FCTF structure and payment criteria and developing a methodology to identify households for targeted support.

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ABBREVIATIONS

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1. INTRODUCTION

1.1 Background

The development of a financing mechanism is an important aspect of the REDD+ (Reducing Emissions from Deforestation and Forest Degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries) readiness process in Nepal. A number of initiatives, including those supported by the Forest Carbon Partnership Facility (FCPF), have been undertaken to prepare the country for REDD+. Among them, devising a benefit-sharing mechanism is one of the important aspects of the REDD readiness process (Khatri *et al.* 2010; Paudel and Karki 2010). This process is challenging for countries such as Nepal where forests are managed by diverse social groups under different tenure regimes (Acharya *et al.* 2009; Bushley and Khatri 2011; Paudel *et al.* 2011). Since about one third of the country's forest area is managed under different community based forest management regimes of which the community forestry is the prominent one (Ojha 2009; Acharya *et al.* 2009; Bushley and Khatri 2011), local communities become central to any REDD+ financing mechanism. In this context, the International Center for Integrated Mountain Development (ICIMOD), in collaboration with the Federation of Community Forestry Users, Nepal (FECOFUN) and the Asia Network for Sustainable Agriculture and Bio-resources (ANSAB) implemented REDD+ pilot project entitled 'Design and Setting Up of a Governance and Payment System for

Nepal's Community Forest Management under REDD+' with financial support from the Norwegian Agency for Development Cooperation (NORAD). The aim of this project has been to explore effective REDD+ benefit-sharing mechanisms in Nepal's community forestry. The project planned for 2009-2012 is being implemented in the 105 community forests of three watersheds—Charnawati in Dolakha district, Kayarkhola in Chitwan district and Ludikhola in Gorkha district—with the aim of contributing to the development of a REDD+ payment mechanism at the national scale.

The project adopts an action research mode through initiating some payment, and supporting the local level planning and monitoring of the dynamics of REDD+. In doing so, the project has set up the pilot Forest Carbon Trust Fund (FCTF) that manages and regulates the distribution of the seed grant (Skutsch *et al.* 2012). The FCTF is governed by advisory committees at the central and district/watershed levels. It is mostly comprised of civil society organizations (CSOs), representatives from the Watershed REDD-Network, and the government's REDD Forestry and Climate Change Cell (REDD Cell) and District Forest Office. At the watershed level, there is a REDD Network, represented by chairpersons of all the concerned CFUGs. In addition, the project also engages with existing institutions – the District Forest Office (DFO), FECOFUN, and local governments.

The project made the first payment through the FCTF in 2011 and the second payment in 2012. A total of 105 CFUGs received cash payment for storing carbon in CFs for the first time. For doing this, the project established a mechanism of FCTF for managing and channeling the fund to the user groups. However, this development of new institutions and mechanisms for the delivery of payment to CFUGs has produced new dynamics affecting a range of local actors and processes.

In this context this study was commissioned to assess the FCTF structures at different levels and the process of fund disbursement. This study has also aimed to understand the dynamics in the pilot project sites after the creation of new institutions as a loose forum and the initial disbursement of the fund. The overall aim of the study has been to draw lessons from the first pilot payment to inform the process of developing future REDD+ financing in Nepal.

1.2 Objectives and guiding questions

The broad objective of this study is to review the structure and governance of pilot FCTF structure and governance and to improve understandings of the social and institutional dynamics of REDD+ payments with the aim of drawing lessons for future REDD+ financing mechanisms in Nepal. The specific objectives are to:

- Understand the social and institutional dynamics of REDD+ payments and assess the potential for scaling them up to other projects and areas;

- Review the structure and governance of the FCTF pilot; and
- Draw implications for the design of a national REDD+ payment mechanism.

The key area of enquiry under this study is the emerging social and institutional dynamics around recent REDD+ payments in three pilot sites of the ICIMOD-led project. The analysis of these local dynamics and the review of the governance mechanisms will help to better formulate a national REDD+ payment mechanism. The following questions served as reference for this study:

- What are the key social, economic and political risks of REDD+ payments at the grassroots level?
- What are the key governance issues around the payment practices amongst the local communities?
- What are the missing links and gaps of the pilot FCTF?
- What are the implications for future REDD+ payment mechanisms?

1.3 Methodology

This study employed a combination of methods, including a review of relevant literature and project documents, consultation with experts, field visits, and interactions/ discussions with stakeholders at different levels. First, the study team extensively reviewed the documents related to the ICIMOD-led pilot project and FCTF. This review helped to create an understanding of the payment system, mainly the structures and governance mechanisms, payment criteria and

guidelines. Second, two expert consultation meetings were organized. The first meeting was held, before our field visit, with experts working on social inclusion, REDD+ financing mechanisms, and research methods (see Annex 3 for the list of experts consulted). The meeting provided insights on REDD+ payment-related structures and their functions and offered pointers to refine this study. The second meeting was held after conducting the field study, to enable comments on the findings of reviews and field insights and to solicit opinions on a future national REDD+ payment mechanism.

Third, this study carried out interactions and observations at the project sites (Dolakha, Gorkha and Chitwan). In the field, focus group discussions were conducted with FECOFUN officials and the members of REDD-Network and CFUGs. The discussions focused on the social and institutional dynamics that emerged from the disbursement of the first installment of the REDD+ payment. Semi-structured interviews were also conducted with the officials from the DFO, District Development Committee (DDC), Nepalese Federation of Indigenous Nationalities (NEFIN) and other relevant stakeholders

at the district level. The interviews were also conducted with selected CFUG members, particularly women, Dalits, ethnic minorities and poor households. Finally, the drafts of this discussion paper were shared at different national REDD+ related forums and the FCTF advisory committee meeting to seek comments and feedback before its finalization.

1.4 Report structure

This Discussion Paper is organized into six main sections. The following section provides background information on the FCTF structure and REDD+ payment in Nepal. It discusses the governance mechanism, payment criteria and fund-use guidelines, and provides an overview of the first payment made in the three project sites. Section three provides a review of the FCTF structure and payment mechanisms. Section four presents the findings from field-level interactions and observations. Section five discusses the key insights from the review of FCTF structure and payment mechanism and field observations. The report concludes by drawing out the implications of the REDD+ pilot payment to the prospective REDD+ payment mechanism in Nepal. ■

2. PROJECT BACKGROUND

The project entitled 'Design and Setting Up of a Governance and Payment System for Nepal's Community Forest Management under REDD+' led by ICIMOD and implemented in collaboration with ANSAB and FECOFUN commenced in June 2009 and will last till May 2013. The project is intended to demonstrate a REDD+ payment mechanism. This section provides background information about the project sites, the governance structure of the FCTF, the payment criteria and the fund-

use guidelines adopted by the project. A brief overview of the first payments made in June-August 2011 is also included.

2.1 Project sites

The project is being implemented in community forests of three watersheds of Nepal: the Charnawati watershed in Dolakha District; the Ludikhola watershed in Gorkha District; and the Kayarkhola watershed in Chitwan District (see figure 1).

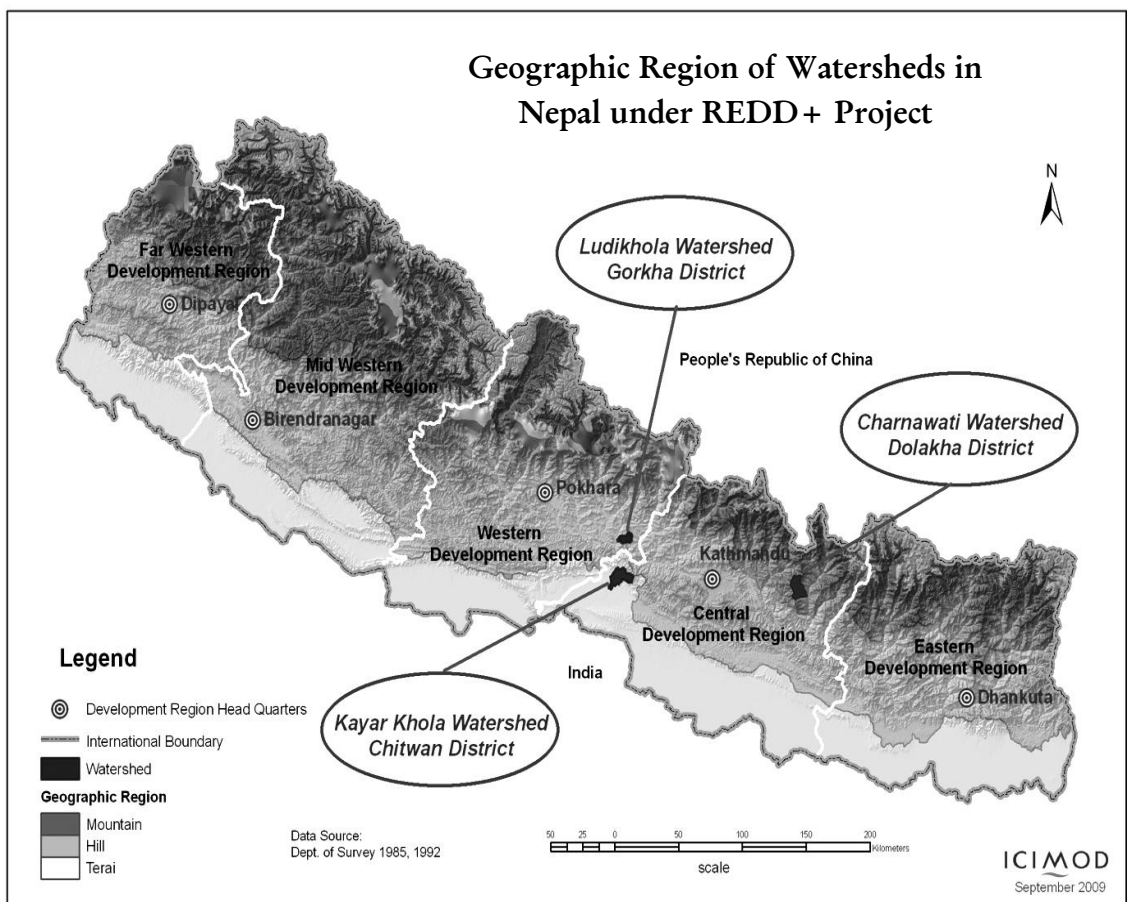


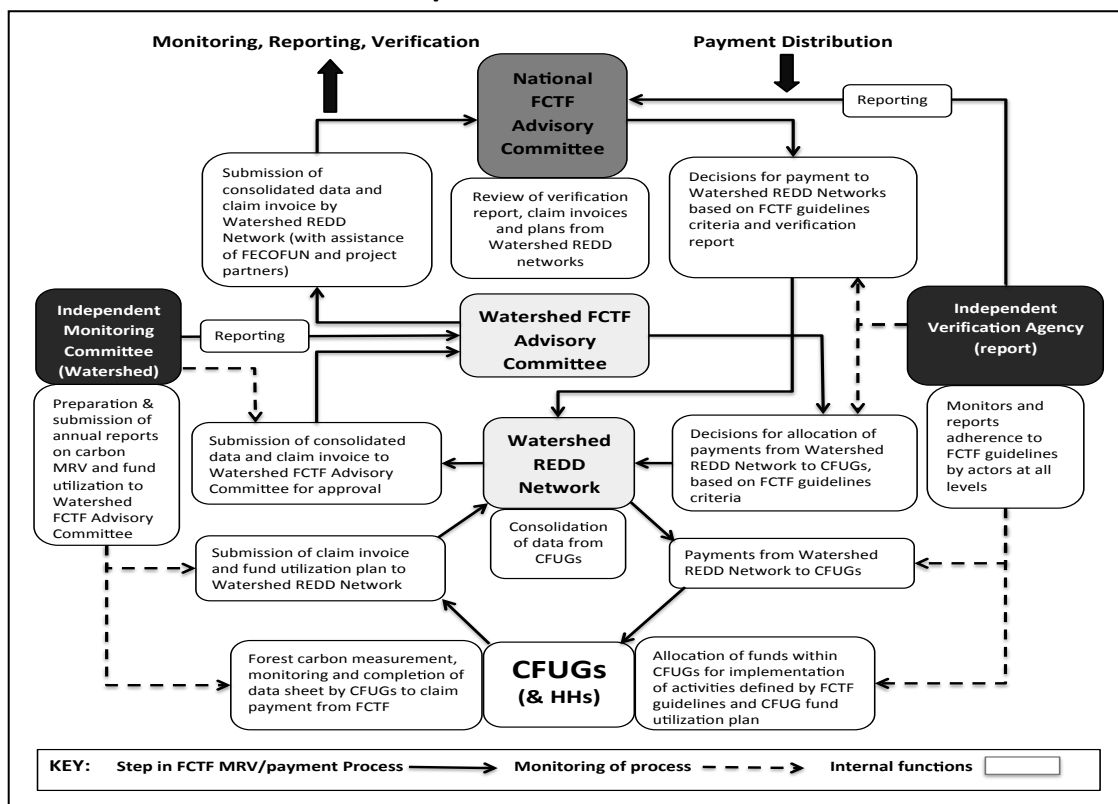
Figure 1: Map showing project sites

Table 1 provides a brief overview of the project sites. The project sites consist of over 16,000 households organized into 105 CFUGs and managing over 10,000 hectares of forest.

Table 1 : Overview information of project sites

Watershed name	Total watershed area (Hectares)	Number of CFUGs	Forest Area under CF (Hectares)	Total households	Total population
Ludhikhola (Gorkha)	5,750	31	1,888	4110	23685
Kayarkhola (Chitwan)	8,002	16	2,382	4163	23223
Charnawati (Dolakha)	14,037	58	5,996	7870	42609
Total	27,789	105	10,266	16143	89517

2.2 Governance structure of pilot FCTF



Source: Bushley and Khanal 2012

Figure 2: Governance Structure of FCTF and REDD fund flow

The project has established the FCTF to pilot the REDD+ payment mechanism for community forestry in Nepal. The Operational Guidelines of FCTF (ICIMOD *et al.* 2011) prepared by the project specifies the structure and system of REDD+ payment. The structure of the FCTF for different levels of governance was crafted by a multi-stakeholder task force including project partners, REDD-Cell, Himalayan Grassroots Women's Natural Resource Management Association (HIMAWANTI) and other non-state stakeholders after consultations with stakeholders at national and district levels. The structure of the FCTF and channel of payment is shown in figure 2. In this pilot project, the project management unit at the central level has played a key role in administering the seed grant money and the release of the fund to watershed level (see ICIMOD *et al.* 2011 for detail).

2.3 Payment criteria and fund utilization guidelines

In addition to the carbon sequestered and conserved in the Community Forests (CFs), the project considered socio-economic criteria for the REDD+ payments. As shown in the following equation, four criteria were considered for allocating the amount of REDD+ payment for each CFUG.

$$\text{REDD Payment} = f(\text{forest carbon stock and forest carbon enhancement} + \text{ethnic diversity (IP and Dalit households)} + \text{population of women} + \text{number of poor households}).$$

Source: ICIMOD, FECOFUN and ANSAB 2011

Of these criteria, 40% weight was given to enhancement and conservation of carbon and 60% to socio-economic aspects. Out of the 60%, 25% was given to ethnic diversity (number of households of indigenous people and Dalits), 15% on women population and 20% on the incidence of poverty (number of poorest households identified by CFUG) in each group.

The FCTF Operational Guidelines has provided the basis to CFUGs for the utilization of received funds. The fund utilization by CFUGs is in line with the FCTF guidelines as stated below:

- a. Activities that reduce deforestation
- b. Activities that reduce forest degradation (including indirect activities that helps in reducing forest degradation such as alternative energy promotion)
- c. Activities related to the conservation of forest carbon stocks
- d. Sustainable management of forests and biodiversity conservation {as used by United Nations Framework Convention on Climate Change (UNFCCC)}
- e. Activities that enhance forest carbon stocks
- f. Poverty reduction/livelihood improvement activities
- g. Forest-carbon monitoring
- h. Awareness-raising and capacity-building activities on REDD+ and climate change.
- i. Auditing of the FCTF and the verification of data.

Apart from the above points, the operational guideline of FCTF has provisioned that CFUGs can earmark a small portion of the fund to be used for biodiversity conservation (a detailed analysis on the payment criteria and fund use guideline is provided in the following sections).

2.4 Brief overview of payment

The project provided a total of USD 100,000 to the CFUGs of the project sites as a first payment in June of 2011. The project has also released the second payment, though this has not been accounted in this report. Table 2 presents an overview of the first slot payment made to CFUGs in 2011 according to the agreed upon criteria

Table 2 : Overview of first installment payment

District (Watershed)	No. of CF	Total payable amount (USD)	Payment in different criteria (USD)					
			CF carbon stock (metric ton)	Carbon increment	IPs	Dalit	Women	Poor
Chitwan (Kayarkhola)	16	21904.94	5257.19	3504.79	2190.49	3285.74	3285.74	4380.99
Dolakha (Charnawati)	58	45534.93	10928.38	7285.59	4553.49	6830.24	6830.24	9106.99
Gorkha (Ludikhola)	31	27560.13	6614.43	4409.62	2756.01	4134.02	4134.02	5512.03
	105	95000	22800	15200	9500	14250	14250	19000

Source: ICIMOD 2011

On average, the increase in carbon sequestration between two measurements undertaken in 2010 to 2011 was 2.34, 5.31 and 1.39 tons of carbon per hectare in the community forests of Dolakha, Gorkha, and Chitwan respectively. This variation in the increase of carbon stock is not necessarily only due to the level of effort of CFUGs in forest conservation and management; it is determined by the average age of the forest, vegetation

types, productivity of the land and growth stage of the forest. In other words, the higher growth rate of carbon stocks in Gorkha is due to the young age of the forest and the productivity of the forest area. When the amount to be disbursed was calculated based on multiple criteria, Charnawati watershed of Dolakha received the highest amount (USD45,535) whereas Kayarkhola watershed of Chitwan received the least (USD21,905). ■

3. REVIEW OF THE STRUCTURE AND GOVERNANCE OF REDD+ PAYMENTS

3.1 Central level pilot FCTF structure

As shown in figure 2, the FCTF structure consists of a central-level body called FCTF Advisory Committee. As shown in Box 1, the committee comprises of representatives from the REDD Cell, the project partners, and CSOs. The structure has strong representation from CSOs and project partners, but the government is represented by only REDD-Cell and there are no representations from the private sector and academic/research institutions. The pilot project focuses on benefit sharing in community forestry, and the stakeholders representing other models of forest management are missing from the structure. The project partners have also realized this limitation. One of the partners stated:

“We admit that the current body has limited representation from the government, the private sector and academic institutions. However, the existing committee can nominate additional members for better representation.”

The project has some logic behind over representation of CSOs in the Advisory Committee. They argue that REDD+ cannot be implemented without meaningful participation of rights-holders like NEFIN¹ and FECOFUN.² As the project's aim is to pilot REDD+ benefit sharing in CF, the structure primarily includes representation from stakeholders

Box 1: Central FCTF Advisory Committee Members

- Federation of Community Forest Users Nepal (FECOFUN)
- Asia Network for Sustainable Bio-resources (ANSAB)
- International Center for Integrated Mountain Development (ICIMOD)
- Himalayan Grassroots Women's Natural Resource Management Association (HIMAWANTI)
- Ministry of Forests and Soil Conservation- REDD Forestry and Climate Change Cell
- Nepalese Federation of Indigenous Nationalities (NEFIN)
- Dalit NGO Federation (DNF)
- Representatives from the three watershed-level REDD-networks

related to CF. However, if we consider implementing REDD+ beyond CF, such structures need the participation of stakeholders representing other forest management regimes including government-managed forests, protected areas, and Collaborative Forest Management.

Despite its name, the ‘advisory’ committee is playing the role of a steering committee for the FCTF at the central level to facilitate REDD+ payments from the sub-national to the watershed level. During a consultation meeting, the stakeholders

¹ Nepal Federation of Indigenous Nationalities (NEFIN) is an indigenous peoples' organization in Nepal and is working to promote indigenous peoples' rights (cultural, linguistic, religious and territorial).

² FECOFUN is an umbrella organization of about 15,000 CFUGs across the country which works to defend the community rights in forest resources.

suggested a two-tier governance mechanism – a small steering committee representing important actors and an inclusive multi-stakeholder advisory body that includes a relatively wide range of stakeholders. The steering committee could fulfill administrative roles with operational decisions whereas the advisory committee would take policy decisions and provide overall guidance. Such separation would provide space to include wider stakeholders in the process without compromising the efficiency of the governance structure. The content analysis of the REDD+ related policy documents, however, provided a different picture. The REDD Readiness Preparation Proposal (RPP) has envisioned using the existing multi-stakeholder mechanisms such as Forest Sector Coordination Committee (FSCC) or the REDD Working Group for REDD+ implementation including benefit sharing (MFSC 2010). Government officials perceive that the FSCC or the REDD Working Group can serve as the central level multi-stakeholder governing body and the REDD cell as the secretariat of the fund. However, CSOs have reservations over the government-dominated structures, such as FSCC. These have been criticized for not providing adequate space for CSOs and right-holders. On the other extreme, the CSO-led mechanisms such as the FCTF are also criticized for their marginal representation of government officials. In fact, as expressed by one official from REDD Cell, “pilot FCTF structure is against the spirit of the RPP to use existing structures like

FCTF to distribute REDD+ fund. The FSCC might have some shortcomings particularly in terms of representing CSOs like FECOFUN which we could discuss and resolve.” However, the FSCC is almost a dead entity and there is little enthusiasm to revive it particularly within the forest bureaucracy.

Amidst this debate, experts from government organizations, development partners and CSOs have suggested creating an independent forest carbon trust fund at the national level with a semi-autonomous status. They advised that this structure should be led by the government with adequate space for CSOs and the private sector in its decision-making. The current pilot FCTF can provide valuable lessons for the future design of such a national mechanism. In addition to this, we can also bring lessons and insights from payment mechanisms developed for REDD and Payments for Ecosystem Services (PES) in Brazil and Costa Rica respectively. The Amazon Fund in Brazil is managed by a bank and governed by a multi-stakeholder governing body (Amazon Fund 2008; Simon *et al.* 2011). Similarly, the PES payment mechanism developed in Costa Rica called National Fund for Forest Financing (FONAFIFO)³ is a semi-autonomous government led mechanism (Pagiola 2006). These models can provide valuable lessons for government led semi-autonomous mechanism to establish and operate FCTF.

³ Full form in Spanish language is Fondo Nacional de Financiamiento Forestal.

3.2 Watershed level structure

The ICIMOD-led pilot project conceptualized a watershed-level network of CFUGs, termed the REDD-Network. The core idea behind such a network is the bundling of CFUGs to reduce transaction cost of REDD+ implementation. These networks are instrumental for the coordination of project activities like carbon measurement, maintaining records, distributing the REDD+ seed grant and monitoring of fund use. Besides, the networks serve as a bridge between the CFUGs and the project implementing partners at district level to facilitate the exchange of project information and general knowledge on REDD+. In fact the REDD-Network can be regarded as a learning center for REDD+. Moreover, the project has also envisioned the REDD-Network as the institutional entity for carbon trading. It can collectively represent the CFUGs as well as act as the proponent for carbon trading.⁴ There is also a district-level advisory committee to facilitate the REDD+ payment sub-nationally (see Box 2 for the structure of the advisory committee), and to provide strategic suggestions and guidance for the REDD-Network. However, the current structure of the REDD-Network has some limitations. The Network membership is limited to CFUGs, excluding local communities and stakeholders related to other forest management regimes such as government- managed forests and leasehold forests. This has limited its scope to

understand the complexities associated with the mosaic of forest management regimes in a single watershed. Realizing this limitation, a REDD Cell official noted, “Now we have realized that we need piloting of REDD+ payments, including different forest management regimes with the key role played by government agencies.” Considering this gap, the project has considered including Leasehold Forests of the watersheds in the payment scheme.⁵ Several leasehold forests are included in the carbon measurement and socio-economic assessment, but the payment is yet to be done.⁶

Box 2: FCTF advisory committee members at district level

1. District Forest Officer (DFO)
2. Federation of Community Forest Users, Nepal (FECOFUN)
3. Watershed level REDD-Network
4. Representative of District Development Committee
5. Nepalese Federation of Indigenous Nationalities (NEFIN)- Member

3.3 Fund flow mechanism

The pilot FCTF has devised a mechanism for the flow of funds from the central level to the CFUGs (see Figure 2). At the central level, the project has operated a separate, dedicated bank account of the FCTF to facilitate the distribution of the REDD+ seed grant. The fund is handled

⁴ Based on interview with Nabaraj Dahal, FECOFUN.

⁵ Personal communication with Eak Rana, Manager of pilot project.

⁶ Personal communication with Kumar Darjee from FECOFUN.

according to the decisions of the central-level advisory committee of the FCTF. There are three signatories required to operate the account representing the three project partners. Once the FCTF advisory committee makes the decision about disbursement, the fund will be released to the designated bank account at district level.

At the district level, there is also a dedicated bank account operated with the joint signatures of FECOFUN and the REDD-Network. The district-level advisory committee makes decisions about distribution of the fund to CFUGs. Once the committee makes the decision, the fund is released through account payee (A/C) cheque to the accounts of individual CFUGs.

The CFUGs were found to have their own fund-management and utilization procedure. Once they receive the REDD+ seed grant, the general assembly of the respective CFUG makes a decision about utilizing the funds. The Guidelines for Community Forestry Development Program (2009) provide the procedures to CFUGs for use of the fund. In addition, Fund Utilization Guidelines developed by the project have provided a list of priority activities for REDD+ funds. The project facilitators have been supported to develop plans and implement those plans. The use of the REDD+ seed grant by CFUGs is discussed in detail in the next section.

The fund-flow mechanism devised by the project seems simple and efficient. However, country-level REDD+ payment mechanism that accommodates all forest management regimes may vary depending on its nature and governance. The government has an interest to administer the fund through existing government mechanisms such as FSCC, REDD Working group and District Forest Coordination Committee (DFCC). However, there is strong concern among the CSOs and private sector organizations about the fiduciary risks of a government-led fund-flow system. Besides, these bodies are neither adequately inclusive nor democratic in their practice. These and other similar government-managed funds have suffered administrative hurdles, delays and the leakage or misuse of funds. The fact that most of the forestlands are legally owned by the state makes the case more difficult. Though communities can claim their central role in any REDD+ transactions in CFs, the government has its own rationale for bridging thousands of CFUGs with overseas carbon buyers and traders. Therefore, the basic question is how to position the government in the climate financing of CFs. Here is a fundamental question of how the state should engage itself in REDD+ and to what extent. The experts representing the government and development organizations suggested that there should be a government led and owned fund administration scheme with strong monitoring by a fully democratic and inclusive multi-stakeholder body with adequate space for CSO and the private sector.

These debates and disagreements reveal the need for more rigorous discussions in future REDD+ fund management mechanism. It appears that a consensus may be achieved on a government-led fund-management system with a multi-stakeholder decision-making body where CSOs and private sector organizations have meaningful say.

3.4 Monitoring and verification mechanism

The project has made provision for a verification agency at the central level and a monitoring committee at the district level in order to monitor changes in carbon stocks, corresponding payment to CFUGs and socio-economic changes in the groups. The central-level FCTF advisory committee has selected Environmental Resources Institute (ERI) Pvt. Ltd., an independent body in Nepal as a verification agency through competitive process following the logic that the monitoring, reporting and verification of REDD+ should be undertaken by an independent entity to ensure equitable, effective, and efficient payment and safeguards are respected. Recently, ERI has developed a framework for Monitoring, Reporting and Verification (MRV) of carbon and other social outcomes.

The project has also made provision for a monitoring committee at the district level. The committee comprises representatives from the District Soil Conservation Office, the DFO, a local technician from ANSAB, one member each from district-level organizations of marginalized groups (Dalits), and a women's network. The responsibilities of monitoring committee are to ensure that carbon inventory is made according to the methodology suggested by the verification agency and records are kept up-to-date so that the recipient CFUGs utilize the funds as per the agreed-upon criteria.

Though the project has tried to follow the REDD+ requirement by making provision of monitoring committee for first level internal monitoring and creating a mechanism for independent MRV, some gaps remain. First, the relation between the central-level verification agency and the district-level monitoring committee need to be strengthened. Second, in principle, the monitoring and verification agency should be independent and mutually agreed upon by both the buyer and seller. However it is not clear yet, who authorizes on what basis the legitimacy of ERI or any other institution as a verification agency. ■

4. POST-PAYMENT DYNAMICS: FIELD REFLECTION AND ACTORS' PERSPECTIVES

4.1 Payment criteria and stakeholders' perspectives

The idea of REDD+ is to value and take into account the multiple benefits beyond carbon sequestration. This is particularly so in the context of CF where forest management and the institutional practice of CFUGs are generating diverse benefits. With this understanding, the project has developed payment criteria combining both carbon and socio-economic aspects through wide stakeholder consultation at different levels (see section 2).

However, experts have shown some level of skepticism, claiming that by putting more emphasis on socio-economic criteria, the notion of performance based payment which is important for incentivizing emission reduction may be undermined. Officials from the REDD Cell argued; "Forty percent weight given to carbon is too low to provide required incentive to the CFUGs for forest management for REDD+. CFUGs with lower rankings in terms of socio-economic criteria might get de-motivated to participate in the REDD+ scheme."

The officials explicitly suggested the revision of the existing criteria in favour of result-based payment. The project, however, has its own rationale on both procedural and substantive fronts. First, it adopted a rich consultative process involving a wide range of stakeholders. The project gave special attention to socio-economic criteria in order to: i) give a positive message to national and

international audiences that REDD+ can safeguard the rights of Indigenous Peoples (IPs) and forest-dependent communities; ii) provide some incentive to those CFUGs having a small area but large population. Adoption of socio-economic criteria has helped them get a reasonable amount of money that keeps them optimistic towards REDD+.

We got a mixed response on the payment criteria from the project sites. Those who were consulted during the process supported the criteria. For example, the secretary of the REDD-Network of Ludikhola watershed supported the criteria:

"We were involved throughout the process of developing criteria. I believe this will help in distribution of REDD+ incentives in future, which contributes to sustainable management of CF and improving the livelihoods of poor and marginalized communities."

*Bhuraman Ghimire,
Secretary of Ludikhola Watershed, Gorkha*

Some others, usually those who were not consulted, have opposed the criteria.

"The criteria seem good as these consider the socio-economic aspects like the population of IPs, Dalit and identified poor from the CFUGs. However, the problem is whether the targeted people really know about the criteria and can get real benefit or not. We know, CFUGs have a problem in terms of sharing benefit and most of them are controlled by elites from so-called higher castes. But we need to see whether such criteria will be translated into practice."

Secretary of NEFIN, Gorkha

Many people, while not disagreeing with the criteria, appear cautious regarding their successful adoption. For example, the District Forest Officer of Gorkha said, “The criteria maintain a balance between carbon and socio-economic aspect. However, we need to see whether marginalized communities actually benefit in practice.”

Some people, particularly those belonging to Chhetri and Brahmin caste, showed their reservation over the idea of socio-economic criteria, especially the number of indigenous people as a criterion for payment. They argued that ethnic groups are not necessarily poor and this does not help poor people in the group. Some people also see the risk of conflict in the future due to such criteria. Laxmi Bhujel, REDD-Network secretary of Charnawati watershed, argued that the criterion on ethnic groups can affect the current state of social harmony and collective action. Likewise the secretary of NEFIN Gorkha also thinks that benefit should be distributed based on wellbeing status rather than ethnicity.

Many people doubted the application of socio-economic criteria in practice. For example, some CFUGs attempted to manipulate socio-economic information in order to claim more funds based on given criteria. Project staff and the trust fund advisory committee learnt that some CFUGs reported unexpectedly higher number of poor households in their group. They had to ask many CFUGs to revisit and revise the well being ranking data. However, contestation and confusion regarding the identification of poor households and mechanism to provide

support to them still exist. Furthermore, devising pro-poor investment plans to utilize the seed grant is one of the challenging tasks for the CFUGs.

The project team members have also realized that the criteria developed by the project may have been different from a likely REDD+ context in future. Nabaraj Dahal, program officer of FECOFUN said,

“We do not insist the government to copy these criteria in future. Since REDD+ money will come for carbon, it should get more emphasis over the carbon outcome. We have also realized that CFUGs have been facing the challenges in mobilizing the funds as per the social criteria.” Experts also indicated the absence of some vital aspects in payment criteria. For example, the criteria used in the pilot project do not include the costs involved in carbon measurement, monitoring and the administration of the funds. In actual REDD+ payments, such costs would be accounted for and would be deducted from total allocated funds. Similarly, co-benefits such as bio-diversity should also be included in the criteria.

Overall, the development and adoption of payment criteria provided significant lessons for future REDD+ payments for Nepal. Balancing carbon enhancement with socio-economic safeguards is a very challenging aspect of REDD+. Based on lessons from field, we can revisit payment criteria and consider including biodiversity indicators. In particular, reflection is

needed on the balance between biophysical and social outcomes in the payment criteria.

4.2 Utilization of REDD+ money by CFUGs

The CFUGs have utilized the money disbursed in 2011 following the FCTF

fund utilization guidelines. The second slot of REDD+ payment has also been made in 2012 but this report has not covered analysis of second year's payment. Table 3 below provides an overview of how the money that was disbursed in 2011 as first slot of REDD+ payment was used by CFUGs.

Table 3: CFUG activities using carbon payments

Fund utilization headings	Key activities	Level of use	Percentage of received fund		
			Charnawati (Dolakha)	Kayarkhola (Chitwan)	Ludikhola (Gorkha)
Pro-poor activities/ livelihood improvement	Income generating activities within the forest (non-timber forest product (NTFP) promotion, etc.)	CFUG	34.6%	35%	31.13%
	Income generating activities outside the forest (goat rearing, vocational skills training, grocery management, etc.)	CFUG			
Capacity development/ awareness raising	Alternative energy schemes (biogas, improved cooking stoves, etc.)	CFUG	29.6%	40%	27.68%
	Fire management				
	Forest management				
	Grazing management (including grass seedling purchase and distribution)				
Forest carbon monitoring and measurement	Training for women and ethnic communities CFUG	CFUG	16.9%	10%	19.32%
	Awareness raising and meetings with teachers, women, and Dalits CFUG	CFUG			
	Trainings, meetings and workshops on REDD+ for community forest users, school teachers, youth, and women groups	Waters heds			
Other activities	Measurement and data recording	CFUG	11.7%	10%	14.32%
	Local resource persons and data management	Waters heds			
Total			100%	100%	100%

Source: Skutsch *et al.* 2012

We also found some gaps in understanding and adopting the fund utilization guidelines. While the project team provided some general guidelines for uniformity and clarity, the local facilitators and the CFUGs leaders understood the guidelines as mandatory. Moreover, some overlaps were found between the FCTF Operational Guidelines and the CF Guidelines 2009 (see table 4 for key features of CF guidelines and FCTF Operational Guidelines). A story in Box 3 shows that the CFUGs were not fully happy with the project's guideline that simply increased their transaction costs. The District Forest Officer from Gorkha argued that there is no need for separate guidelines for the use of the seed grant provided by the project. He suggested that effective implementation of the CF Guidelines would suffice both for REDD+ implementation and for the general operation of CF. During the expert consultation meeting, people suggested finding coherence between the two.

Box 3: Increased transaction costs:

A case of Chitwan

In Kayarkhola Chitwan, the District REDD Advisory Committee had released only 50% of the allocated seed grant to the CFUGs. The second installment would be released only after demonstrating good performance and the submission of the proof of proper use of the first installment as per the Fund Utilisation Guidelines. In cases where CFUGs are unable to submit a satisfactory report, they may not get the second installment. Also, the CFUGs were asked to open a new account in Tribeni Bank (close to REDD-Network office) for the amount they would be receiving. Opening up a new account in an inconvenient location with Rs 8000, of which they cannot take Rs 5000 (minimum deposit to maintain the account) has simply increased their burden. One of the committee members questioned: Is all our efforts of the whole year worth only Rs 3000?

Table 4 : Key features of CF guidelines and FCTF operational manual

Provisions on fund use in CF Guidelines	Provisions for use of seed grant in FCTF Operational Manual
The CFUGs have the right to make decision on how to use the fund. • According to the Forest Regulation 1995 the CFUGs require to spend at least 25% of the group fund in forest management related activities. • Guideline suggested the CFUGs to use 35% of the group fund on poverty reduction and livelihood improvement related activities; targeting poor and marginalized communities.	• Activities related to reducing deforestation and forest degradation, enhancing forest carbon and conservation of the forest • Sustainable management of forest and biodiversity • Forest carbon monitoring, data verification and auditing of FCTF • Poverty reduction and livelihood improvement • Awareness and capacity development

Source: MFSC 2009 and ICIMOD *et al.* 2011

During our interactions with CFUGs and other stakeholders, we learnt that CFUGs have been facing a number of challenges in effectively mobilizing the seed grant. First, while they have received grants based on population of ethnic groups and dalits, they do not have any established mechanisms to distribute the funds based on these criteria. In the meantime, the IPs and Dalit have claimed that they should get their share of the seed money. During an interaction, the secretary of Mahalaxmi CFUG of Gorkha said,

“The disbursement of fund from the REDD+ project is a major challenge for us. On the one hand, Dalit and ethnic communities are claiming the money based on ethnic criteria. On the other hand, the money is so little and we are bound to allocate it for the areas stated in the guidelines like forest management, supporting poor households and so on. The CFUGs don't have past experience of providing targeted benefits to the households based on ethnicity or to Dalits.”

Second, identifying the ‘poor’ appears problematic. In many cases, the CFUGs were struggling to adopt robust and well-accepted methodologies for well being ranking. In some other cases, however, the process was influenced by their desire to claim more fund by showing large number of poor households. At the time of field visits, the CFUGs were not able to agree upon the list of poor households. Dolakha was an exception, where relatively established well-being ranking methods were adopted in ranking exercises. This can be attributed to the long involvement of Nepal Swiss Community Forestry

Project in the district. Elsewhere, however, maintaining the consistency of the standard for the identification of poor households was a challenge.

Third, the large number of identified poor contrasted with the relatively small amount of money available, has become a common challenge for the CFUGs. Many CFUGs have prepared the priority list of poor households to offer a targeted support program through the REDD+ money. For the remaining households funding will come from next year’s payment.

Fourth, maintaining proper records of the well-being ranking, forest inventory, development activities, CFUG account, and meeting minutes has been a challenge. The REDD+ implementation requires the maintenance of a transparent system with up-to-date records and accounting. Though CFUG committee members have received training in accounting and record-keeping, there is a lack of such skills and adequate appreciation of these records. In addition, there is a transaction cost involved in maintaining those records. The majority of the CFUGs have been operating in a largely informal manner – a convenient approach in the local contexts. However, there is increasing realization of the need for formal and systematic approaches to record and account keeping. In an interaction with the executive committee members of Sita Kunda CFUG of Dolakha, the participants said,

“Our [transaction] cost has significantly increased after the REDD+ payment, which may require a systematic accounting system. Currently, we do not have skilled

members in the executive committee who can maintain such records. Those who had been trained earlier left the committee. The new leadership does not have such capacity.”

This suggests a need of additional efforts to develop the capacity of CFUG leaders and also the mechanisms to retain capable people in the executive committees. Again, it does not itself resolve the transaction costs involved, particularly given the relatively modest fund.

4.3 Institutional dynamics and stakeholder relations

Reviewing project implementation mechanisms, we learnt that the project has attempted to promote multi-stakeholder processes at both the national and sub-national levels. At the sub-national level, the district advisory committee has been formed to make necessary decisions related to REDD+ implementation (See box 2 for composition of this advisory committee). The committee has provided a platform for the different stakeholders to discuss the issues beyond distribution of the seed grant, for example monitoring of CFUGs’ forest management activities. The sub-national level structure can provide important lessons for devising sub-national level mechanisms of REDD+ payment.

Formation of sub-national institutions has provided a forum for forest sector stakeholders to share, learn and collaborate in addressing some locally emerging issues. As stated by the District Forest Officer of Gorkha, the project has sought to develop a platform for exchange among government and civil society actors including the local government. However,

relations between stakeholders vary in the three project districts. For example the DFOs in Dolakha and Gorkha are collaborating with FECOFUN and have good working relations, whereas the DFO of Chitwan responded that he was not adequately informed about the process. However, these relationships are not shaped purely by the project proponents, but by the larger political economy of forest governance in hill districts and Terai that includes market interface, economic value of forest, extent and frequency of illegal activities around forest, relative value of forest and seed grant, and the complexity of issues and actors.

Generally, DFOs in Terai districts have to work in more complex situations and tend to pay little attention to many project related activities. Also the DFO-CFUG relations in Terai are usually tense due to ongoing contestation in several issues of management and harvesting. In the hills, there is relative absence of market opportunities and therefore fewer cases of illegal extraction. Consequently, DFO-community relations tend to be collaborative and harmonious. These contextual variations are reflected in this pilot project implementation too. Besides, the REDD+ money matters a lot for the hill CFUGs while it represents only a miniscule proportion of overall income in Terai CFUGs.

Even in the hilly district such as Gorkha, the DFOs have a weak sense of ownership over the REDD+ project and benefit sharing arrangements implemented by the project. They are aware of the process and are participating in the meeting of district level advisory committee. Yet, they think

they are simply the invitee of the project. This weak ownership can be attributed to the frequent transfer of DFOs and the associated lack of institutional memory within the bureaucracy. During the process of this pilot project, 2-3 DFOs have been changed in these districts. Some may have shown interest and are supportive to the process while others have less enthusiasm towards the whole process.

As discussed earlier, the project has conceptualized the idea of networking among the CFUGs for the implementation of REDD+ in CF of Nepal. The original idea was to form a loose and informal watershed-level network of CFUGs, which they called Watershed REDD-Network. These networks in all project sites have been coordinating the implementation of REDD+ activities in the CFUGs, including the measurement of carbon stocks, preparation of socio-economic baselines, and delivery of the REDD+ money to CFUGs. After the payment of the first installment, the REDD-Network is seeking its formal identity, including a mandate to manage the funds at the watershed level. During an interaction, some members of the REDD-Network in Gorkha said, “We are now capable of coordinating with district stakeholders and managing funds related to REDD+ implementation. Therefore, we are thinking of about why not we get registered and open our own bank account.” Such ambition on the part of the REDD-Network may lead to potential conflict with district FECOFUN in the long run. Nabaraj Dahal, FECOFUN program manager, acknowledges the situation as a potential source of future conflict. He said,

“We have also noticed that there are some signs of uneasy relation between FECOFUN and REDD-Network. This is because of some confusion in current and future roles of both the REDD-Network and the FECOFUN.”

Moreover, local government officials also expressed some concerns about the management of REDD+ funds and the governance of the benefit-sharing.

Referring to the Local Self Governance Act (LSGA), the DDCs claimed that they should have leading role in managing the REDD+ funds at the district level. Tilak Paudel (Local Development Officer of Gorkha) said,

“The funds obtained from the REDD+ mechanism should be channeled through the District Development Fund (DDF). The DDC should take the lead role in collaboration with the DFO and CSOs like FECOFUN.”

Though mainstreaming diverse funds into the local governance system can be theoretically defended, we have less encouraging lessons from DDC led PES system in Kulekhani hydropower (Khatri 2011). In this case, the funds meant for incentivizing watershed conservation have shown poor environmental performance. Here the existing local governance system appears to be less sensitive to the environmental agenda. Consequently, funds meant for conservation are spent on environmentally destructive development activities – mainly to construct seasonal roads using bulldozers. However, in the long run, there must be deliberate attempt to reorient the local governments towards its environmental responsibilities. ■

5. ISSUES AND LESSONS

Based on the review of the FCTF governance structure from national to watershed level and post-payment dynamics from the three REDD+ piloting sites in Nepal, this study identified some important issues related to FCTF governance and REDD+ payment and benefit sharing. The study also brought forward some valuable lessons for crafting future REDD+ benefit sharing mechanisms for Nepal. The main issues and lessons are presented below.

Mainstreaming the pilot FCTF into national mechanisms of REDD+ payment:

Currently, the pilot FCTF is governed by a multi-stakeholder body that is efficient in making timely decisions, channeling funds and selecting verification agency. One could imagine how lengthy and cumbersome it would be if it had to go through formal government procedure. However, the current governing body has a high level of representation for CSOs but under representation of the government. Moreover, the private sector and academia are absent. Here we are left with an interesting question – whether we avoid the lengthy bureaucratic system of the government and try to develop a separate efficient system of our own convenience or take the challenges of democratizing the state agencies and structures?

If we are to opt for the latter, we must acknowledge that there are some limitations with the existing FCTF advisory committee. First, the existing body should be expanded to include a

stronger presence of the government, private sector and research organizations, which are crucial for getting wider support and gaining full legitimacy. Second, this piloting is limited to CF and it is less clear on how other forest management regimes could be accommodated into the new national level FCTF. Third, the challenge of how to resolve issues around the formation of the new structure at sub-national level whose role appear overlapping with the existing ones, remains. Their coordination, collaboration and mainstreaming with the district level structures is an important issue.

There are pros and cons associated with both of the mechanisms proposed in the RPP and in the pilot FCTF. Government-led formal mechanisms such as FSICC, REDD Working Group (RWG), or DFCC suffer from a lack of effective participation on the part of non-state actors, a slow decision-making process, and high transaction costs. On the other hand, the CSO-led processes such as the pilot FCTF have high effectiveness and efficiency but operate within a narrow mandate and have a much weaker sense of ownership in terms of the government and other stakeholders.

Despite the challenges of ownership by the state and other stakeholders, the pilot FCTF has gained rich experiences and insights, which can inform the development of a formal mechanism for the FCTF at the national level. There are also opportunities to transform the existing multi-stakeholder bodies, like the RWG,

FSCC and the DFCCs, into more inclusive, democratic and efficient mechanism for the future FCTF. While the mechanisms solely controlled by the government have limited capacity and contested credibility for administering carbon payment mechanisms, the ultimate aim should be to strengthen and democratize these institutions. Though we have good lessons on benefit sharing at community level, there are no action verified lessons on the distribution of benefits at sub-national and watershed levels encompassing all forest management modalities. In this context, the lessons from the pilot project are critical in designing and developing a REDD+ benefit sharing mechanism at the sub-national and watershed level particularly by giving adequate space to CSOs, the private sector and community networks.

REDD-payment at district/watershed level and institutional bundling

The watershed-level REDD-Network was found to be very useful in helping to coordinate the local-level REDD+ related activities: developing standards/ norms, channeling funds, monitoring of implementation by the CFUGs, providing economy of scale, and encouraging the exchange of information (Karky and Skutsch 2010). However, there are challenges in integrating such network with the national and sub-national political and administrative systems. As all the government line agencies, citizen networks and CSOs have their district-level structures, it is less clear how the watershed-level structure can be accommodated within district-level

bodies. What would be an acceptable and functional relationship between them? The experts and stakeholders have felt the need for a separate mechanism at the district level that could coordinate several such watershed-level units.

The idea of organizing the CFUGs into the watershed level network provides valuable lessons for bundling of the fragmented forest patches into larger geographical landscape and number of CFUGs into a manageable unit. However, further homework is required for a functional sub-national level mechanism that can coordinate a number of watershed level structures. Engaged dialogue is needed to reconcile the new structures such as the REDD network, keeping in mind the convenience and efficiency of project implementation and long-term institutional sustainability of the REDD+ payments. From this standpoint, a separate structure at the district level may be required to coordinate the watershed-level mechanisms, administer the REDD+ fund and release it into the CFUGs, keep records of carbon and other socio economic information, and coordinate with district level agencies and national level mechanism. In this case, the watershed level network piloted by the project can be empowered for coordinating CFUGs as what they have been doing now, monitoring the use of REDD+ money, supporting CFUGs for capacity development and use of fund etc. In the future, from a REDD+ point of view, the government can reconcile the current structure of Range Posts to support such watershed level structures.

Diversity of tenure regimes and lessons from piloting on CF

An intensive dialogue on how current initiatives can be expanded to accommodate other forest management modalities beyond CF is needed. Informal communication indicated that the project is trying to initiate forest carbon inventory and payment process in other community based forest management regimes such as leasehold and religious forest. Moving beyond CF invites complex issues on institutional arrangements and benefit-sharing mechanisms are inevitably more complex in other modalities such as in buffer zones (BZ) and Collaborative Forest Management (CFM). In the case of Leasehold Forestry (LHF), the government may claim the REDD+ benefits, as it owns the standing trees, but this won't ensure economic incentives to the LHF groups. In places where diverse modalities of forest management operate, the government's coordinating role may be desirable, though it needs a significant governance reform to make it comfortable for the local forestry user groups, citizen network and CSOs.

Payment criteria and its implementation challenges

Experts and stakeholders have divergent views regarding the socio-economic criteria used for REDD+ payment. Most experts appreciate the socio-economic criteria attached to REDD+ payment, but suggest that the value given to socio-economic criteria is too high within the piloting and may raise a number of issues. First, too much emphasis on socio-

economic aspects may undermine the core principle of REDD+ that focuses on providing economic incentive for reducing carbon emissions (Skutsch et al. 2012). Moreover, valuing socio-economic criteria over principles of performance based system does not properly fit with the international REDD+ policy framework. Second, this may raise undue expectations among socio-economically marginalized groups, which may not be addressed later through the carbon market. Third, there are implementation challenges for disbursing benefits based on socio-economic criteria. While socio-economic criteria have become important basis for allocating funds to the particular CFUGs, the CFUGs do not have well-developed mechanism to channel the benefits to the household level according to these criteria. The fact that Dalits and IPs have already sought their share out of the funds received by CFUGs in some cases reveals that CFUGs may face new challenges in fund distribution.

As the REDD+ concept and practice are quite new within the context of CF, there are gaps in understanding many important aspects. Despite a good consultation, awareness and social mobilization, many people have not yet fully grasped the idea of REDD+, various technical and institutional issues associated with its implementation and potential risks and benefits.

Ensuring standards through universalizing instruments without undermining CFUG autonomy is challenging

The project has attempted to develop uniform practices in all project sites

through guidelines, training/workshops and backstopping. The CFUGs have slowly responded to the demand for standard, formal- written accounting and other record keeping. In many cases, either the local groups do not have the capacity to follow these standard practices, or they substantially increase transaction costs.

The capacity and the associated costs to local institutions in complying with the rules require a critical consideration. Currently, the desired practices often imply high transaction costs. In this case, a lesson is that a more deliberative process of developing such standards would help achieving more uniform standards and their acceptance/compliance in everyday practice without any feeling of external imposition. ■

6. RECOMMENDATIONS

Based on the review of FCTF governance and post-payment dynamics in the REDD+ pilot sites, the following recommendations can be made to utilize the lessons from this pilot project when devising future REDD+ payment and benefit sharing mechanism in Nepal. While most of the recommendations point to the project partners, some also require the attention of the Ministry of Forest and Soil Conservation (MoFSC) and REDD Cell.

- **Make the FCTF advisory committee more inclusive** with particular attention on providing adequate space for government agencies and involving the private sector and research/academic institutions. Apart from increased ownership on the part of the government and other stakeholders, this will provide opportunity for the pilot project to draw diverse lessons and insights to feed into the process of developing national REDD+ payment mechanism. Based on the lessons of the pilot FCTF, MoFSC can devise the future REDD+ payment and benefit sharing mechanism that provides adequate space for key actors including right holders, CSOs, private sector, and research/academic institutions.
- **Revise the payment criteria in favor of carbon sequestration.** The payment criteria should maintain a right balance between international REDD+ principles in providing incentive for forest conservation and management and ensuring social safeguards. Projects should also consider the implementation challenges of socio-economic criteria particularly those related to ethnicity. Similarly, instead of simply adopting the population of women as payment criteria, leadership and representation of women in forest and REDD+ related activities represents a more appropriate payment criteria.
- **Create a district level REDD+ mechanism** for administering the fund disbursement, maintaining records of carbon and socio-economic information, keeping accounts and communicating/coordinating with line agencies and national level FCTF. Such sub-national level structures can coordinate and provide administrative services to different watershed/landscape level networks by accommodating different tenure regimes.
- **Piloting should also include diverse management modalities beyond community forestry.** Piloting in a landscape with a mosaic of diverse types of management modalities offers more comprehensive lessons for implementing REDD+ in Nepal. Expansion of the current piloting to management regimes such as Leasehold Forest, Religious Forests and government managed forests will provide valuable lessons for designing the future REDD+ payment and benefit sharing mechanism.

- **Provide support to revise the CF Guideline 2009 to accommodate REDD+ related aspects** informed by lessons from the piloting. This will help include both internationally agreed REDD+ principles, and the lessons drawn from piloting, into the everyday management of CF/CFUG.
- **Develop a project-wide methodology** for well-being ranking and identifying target households and effective mechanisms to support them. Such innovation would also help overcome

the challenges of using funds against other socio-economic criteria such as ethnicity, caste and gender.

- **Develop and implement customized capacity building packages** for implementing agencies, FCTF governing bodies at national and sub-national level, REDD-Network and CFUG leadership. This would help remove some of the confusions and provide clarity on the roles and responsibilities of the diverse bodies established in the piloting process. ■

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ANNEXES

Annex 1: Checklist for field interactions

- Existing benefit sharing mechanism in CFUGs (from previous study and literature)
- Expectations of CFUGs and REDD-Network from pilot FCTF and level of satisfaction after payment
- How the existing social differentiations are recognized and responded in the payment mechanisms
- Perception of stakeholders over the criteria used and assessed for payments
- Sense of dissatisfaction, conflict and concerns (regarding criteria, payment delivery, decision making process etc)
- Dynamics of existing institutions (CFUGs, FECOFUN, REDD-Network) after first installment payment
- Area of potential conflict with other institutions (DFO, FECOFUN, local government etc)
- Institutional dynamics before and after payments (frequency of meetings, participation in meetings, timing of meeting, meeting agenda etc)
- Expectations of political actors (collect perception/response through interview with key political leaders)
- Response/reaction of DFO (cross-institutional interaction-frequency of meetings, agenda, contestation and understanding)
- Involvement of FECOFUN in piloting process (trade off to focus on other pertinent issues and CGUGs who are not included)
- Change in CFUG internal rules (additional rules, level of enforcement of existing rules and behavioral change)
- Possible scenario after phase out of pilot project (sustainability issue)
- Gap between sponsored payment and possible future market based payments and possible conflict (response to new conditions)
- Linkage with local government (politically elected local government might have more expectations from REDD+ benefits)
- Gaps and missing links of governance structure
- Trade off between performance and inclusive and democratic practices

Annex 2: Checklist/Questions for Expert Meeting

Central level structure:

- Representation in the central payment structure
 - Who should be represented and in which capacity?
 - How will we accommodate different management regimes?
- Roles of central level structure
 - Whether it will play advisory or administrative/steering role?
 - What will be its relations with verification agency?
- Effectiveness and efficiency (transaction cost)
 - What transaction cost it will incur and whether it will be convenience?
- Vertical and horizontal relations of central structure (coordination)
 - How it will coordinate with stakeholders at center level and how it will interact with sub-national structure?
- Legal and institutional avenues
 - What will be legal and institutional avenues?

Payment Criteria:

- Balance between REDD+ principles and social criteria
 - How can we maintain balance between principles of REDD+ (market based incentive mechanism) with different social criteria?
 - How can we recognize the social issues and address by payment mechanisms?

Sub-national level structure:

- Dilemma between existing and new institutions
 - Are there any possibilities of transforming the existing mechanisms like DFCC to function as sub-national benefit sharing mechanism?
- Harmonizing administrative and political boundary
 - What will be the institutional structure to coordinate the watershed level structure proposed by project?
- How to accommodate different management regimes in sub-national level structure?

Annex 3: Experts Consulted in the Study

1. Bhaskar S Karky, ICIMOD
2. Dil Raj Khanal, FECOFUN
3. Eak B Rana, ICIMOD
4. Hari Sharan Luitel, RECOFTC
5. Keshav Khanal, WWF (previously in REDD Cell)
6. Naba Raj Dahal, FECOFUN
7. Nirmal Kumar BK, PhD student
8. Resham Dangi, REDD Cell, MOFSC
9. Sagar Rimal, REDD Cell

Established in 2000, ForestAction (Forest Resource Studies and Action Team) is a Kathmandu based non-governmental organization working in the field of Forestry, Agriculture and Climate Change. ForestAction is established and nurtured by a multidisciplinary team of professionals combining natural and social science. It follows deliberative governance, transformative learning and collaborative partnership as its guiding principles. It has made significant contribution in transforming Nepal's forest governance and policy making environment from a traditional, top-down, state-centric approach towards a deliberative, collaborative and community based approach. During its decade-long institutional life, it expanded considerably in the scale and diversity to become a national centre of excellence and a regionally well-recognized actor in social science research and policy processes, along with a strong international knowledge network.



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